GENSTAR

ANNUAL REPORT 1979

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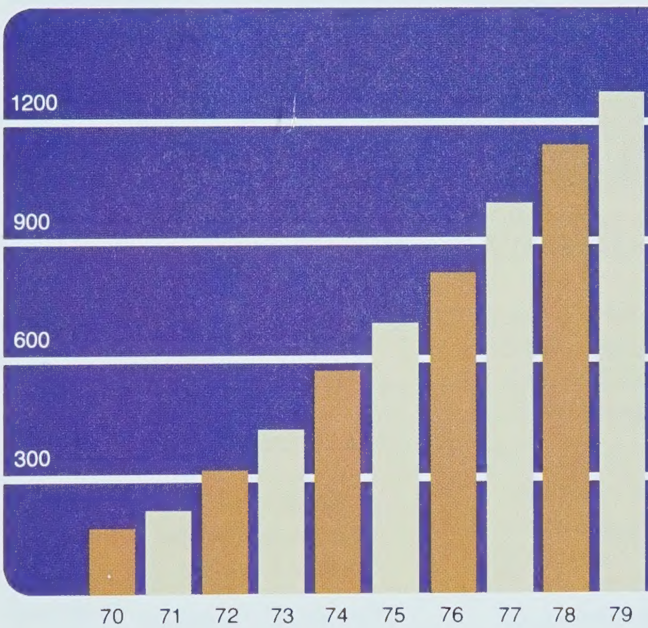
Annual Meeting

The Annual and Special Meeting of shareholders of Genstar Limited will be held on Thursday, May 8th, 1980 at 11:00 a.m. in Suite M-2 of The Royal Bank of Canada Building, One Place Ville Marie, Montreal, Canada.

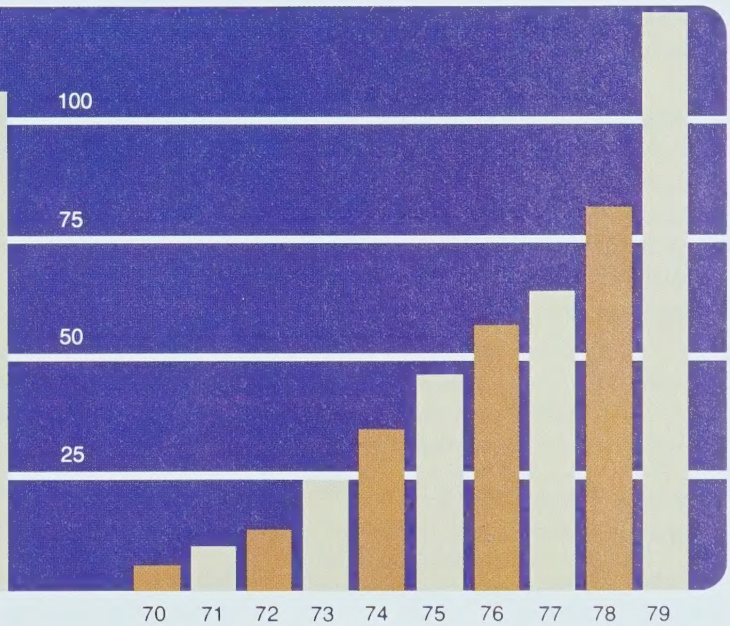
FINANCIAL HIGHLIGHTS
(For the years ended December 31)

	1979	1978	Increase (Decrease)
	(millions of Canadian dollars)		
Revenues	**$1,264.6**	$1,143.0	11%
Funds from Operations	**156.6**	116.2	35%
Depreciation, Depletion and Amortization	**39.1**	50.2	(22%)
Net Income	**123.6**	81.6	51%
Dividends on Common Shares	**34.0**	21.2	60%
Net Income per Common Share – Basic	**$ 4.21**	$ 3.02	39%
– Fully Diluted	**3.96**	2.87	38%
Dividends per Common Share (Current annual rate – $1.60)	**1.25**	0.81	54%

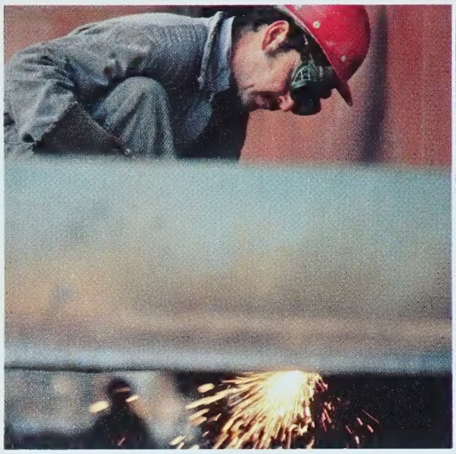
Revenues
(millions of dollars)

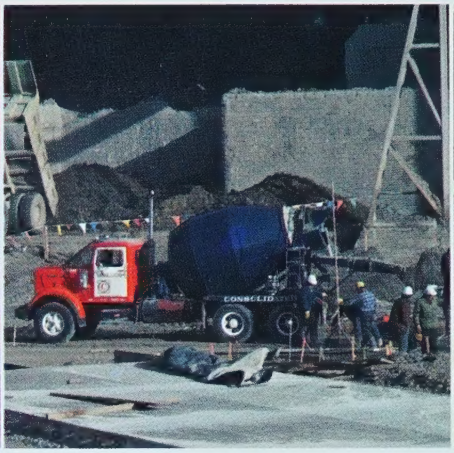


Net Income
(millions of dollars)



ABOUT GENSTAR





Genstar is a leader in homebuilding, land development, and the manufacture of cement and building materials. It is also engaged in construction, tug and barge transportation, shipbuilding and ship repair, financial services, chemical and fertilizer production, and the investment of venture capital. Primary markets are the four western provinces of Canada and the Western and Southern United States.

In the 10-year period from 1970 through 1979, Genstar has established a strong pattern of growth. Revenues have increased at a compound annual rate of 21 percent, net income at a rate of 30 percent, and net income per common share at 22 percent. Genstar has also increased its cash dividends to shareholders every year since 1970.

The company continues to expand and diversify its earnings base through investments in geographic areas and industries that promise stable, long-term growth and above-average profit potential. Early in 1980, Genstar completed acquisition of The Flintkote Company, a major U.S. producer of basic materials for the building and construction industries.

This acquisition considerably increased the size and scope of Genstar operations. Combined revenues of Genstar and Flintkote (converted to Canadian dollars) exceeded $2.2 billion in 1979, assets now total approximately $2.4 billion, and the work force consists of nearly 20,000 employees.

OFFICERS

August A. Franck
Chairman of the Board

Charles de Bar
Deputy Chairman
of the Board

Angus A. MacNaughton
Vice Chairman of the Board
and Chief Executive Officer

Ross J. Turner
President and
Chief Executive Officer

Walter S. Bannister
Executive Vice President

J. Leonard Holman
Executive Vice President

Bernard T. Johnson
Executive Vice President

Nicholas A. Liberatore
Executive Vice President

George F. Michals
Executive Vice President

Gregor G. Peterson
Executive Vice President

Beverley A. Monkman
Senior Vice President

J. Leslie Bodie
Vice President

John H. Chase
Vice President

J. Ernest Hartz, Jr.
Vice President and
General Counsel

Richard D. Paterson
Vice President and Comptroller

George W. Rutledge
Vice President and Secretary

Lorimer E. Whitworth
Vice President

Hugh W. McAdams
Treasurer

DIRECTORS

August A. Franck, Charles de Bar
Angus A. MacNaughton, Ross J. Turner

*Charles de Bar
Deputy Chairman of the Board
Genstar Limited

Yves Boël
Managing Director
Sofina, S.A.
(Investment Company)

James W. Burns
President
Power Corporation of Canada, Limited
(Investment Management and Transportation Company)

**Frank S. Capon
Consultant

*August A. Franck
Chairman of the Board
Genstar Limited

**John B. Hamilton, Q.C.
Senior Partner
Hamilton, Torrance
(Barristers and Solicitors)

**Raymond Lavoie
Chairman of the Board
Crédit Foncier Franco-Canadien
(Financial Institution)

Walter F. Light
President and
Chief Executive Officer
Northern Telecom Limited
(Telecommunications Equipment Manufacturer)

*Angus A. MacNaughton
Vice Chairman of the Board and
Chief Executive Officer
Genstar Limited

Dr. Gordon Marshall
Director
Blue Circle Industries Limited
(Cement Producers)

*W. Earle McLaughlin
Chairman
The Royal Bank of Canada

John D. Milne
Managing Director
Blue Circle Industries Limited
(Cement Producers)

James D. Moran
Chairman of the Board
and Chief Executive Officer
The Flintkote Company
(Genstar Subsidiary)

Max Nokin
Honorary Governor
Société Générale de Belgique
(Investment Company)

*Robert G. Rogers
Chairman of the Board
Crown Zellerbach Canada Limited
(Pulp and Paper Products)

Saul Simkin
Chairman of the Board
Kins Management Limited
(Consultants)

*Ross J. Turner
President and
Chief Executive Officer
Genstar Limited

William S. Ziegler
President
W. S. Z. Holdings Limited
(Investment Company)

*Member of the Executive Committee
**Member of the Audit Committee

In 1979 Genstar net income and revenues again reached record levels, as did dividends paid to company shareholders. Equally significant, acquisition of The Flintkote Company substantially expanded the size and scope of Genstar operations and more firmly established the company in United States markets.

Income
Net income rose to a new high of $123.6 million, compared to $81.6 million in 1978. Income per common share totaled $4.21 and, when adjusted for a two-for-one stock split in mid-1979, represented an increase of 39 percent over the $3.02 earned in 1978. Per share amounts are based upon an average of 27,274,000 shares outstanding in 1979 and 26,376,000 in 1978.

Total revenues amounted to almost $1.3 billion in 1979, compared with $1.1 billion the year before.

For the first time since 1975, all major operating divisions were profitable, with most benefitting from the strong economies of Western Canada and U.S. sunbelt states.

Flintkote
In 1978 Genstar acquired 21.5 percent of The Flintkote Company, a major supplier in the U.S. and Canada of raw materials, products and services for building and construction. Through a tender offer to its shareholders made late in 1979 and concluded shortly after year end, followed by a merger in February 1980, Flintkote became a wholly-owned Genstar subsidiary. Total cost of this acquisition was $447 million.

In 1979 Flintkote revenues were U.S. $869 million and net income was U.S. $45.3 million. As the acquisition was completed in early 1980, only the balance sheet of Flintkote is included in the company's financial statement at December 31, 1979. Genstar income for 1979, however, includes the proportionate share of Flintkote earnings applicable to interests held throughout the year. To provide further information on this acquisition, a more complete discussion of Flintkote operations appears on pages 22-23 of this report.

Significant Events
While the Flintkote acquisition was the most important event of the year, other significant developments included:

• Two increases in cash dividends paid on shares of Genstar common stock. The quarterly rate, adjusted for the two-for-one split, was first raised from 25 cents to 30 cents per share in the second quarter and to 40 cents in the fourth quarter. This represents a 54 percent increase over 1978 and marked the ninth consecutive year cash dividends have risen.

• Acquisition, for $10.6 million of Genstar convertible preferred stock, of the U.S. Rubber Reclaiming Company, Vicksburg, Mississippi. This company recycles scrap rubber, processing it for sale in slab form to tire and other rubber product manufacturers and in granular form for use in asphalt surfaces.

• Completion of the acquisition of Westmor Corporation, a California mortgage banking company.

• Establishment of the company's Executive Offices in San Francisco, California. This move will place key management personnel in closer geographic proximity to the majority of Genstar activities, now concentrated in Western Canada and U.S. sunbelt states. The Head Office of Genstar will remain in Montreal.

• Formation, with Noranda Mines Limited, of a fertilizer manufacturing joint venture called Nutrite Inc., to which Genstar sold its mixed fertilizer operations.

• Divestitures, as anticipated in last year's annual report, which included the sale of Montreal cement and building materials operations and the withdrawal from unprofitable international marine joint ventures. The latter involved disbanding Global Transport Organisation, selling interests in the East Line Trailer Service and related businesses, and sale of the company's share of Arctic Transportation Limited. In addition to eliminating unprofitable activities, these actions will allow Genstar to pursue international marine projects independently and put sizable marine assets to more productive use.

• An increase in working capital and reduction of short-term debt during the year through the private placement of a $50-million debenture issue, the sale in Europe of U.S. $50 million in debentures, and the arrangement of a U.S. $60-million European loan. Late in January 1980, Genstar also announced the sale in Canada of 3,000,000 convertible preferred shares for $94.5 million to further increase working capital and broaden the company's equity base.

Capital Expenditures

Capital expenditures in 1979 totaled $106 million, compared to $52.8 million a year earlier. During 1979, capital expenditures of The Flintkote Company were U.S. $63 million. For 1980, combined capital outlays of about $200 million are anticipated.

Most expenditures by Genstar in recent years have been made to increase cement production capacity, including a major expansion now under way at the company's Edmonton, Alberta, plant.

Other projects in 1980 will include a new gravel plant in Winnipeg, Manitoba, completion of a rubber reclaiming facility in Phoenix, Arizona, and construction of a methane gas recovery facility in Los Angeles, California. In partnership with another company, Genstar is also building a new precast concrete rail tie plant in Richmond, Virginia.

Outlook

All indicators point to little real growth in the U.S. or Canadian economies in 1980, and expectations are that no measurable improvement will take place before the latter half of the year.

The Genstar strategy of locating operations in areas of above-average growth and of concentrating assets in industries offering above-average returns should prove highly beneficial in times such as these.

Most of the company's Canadian enterprises are in the four western provinces where it is estimated 80 percent of Canada's growth will occur in 1980, particularly in Alberta. That province has the largest number of Genstar operations, and the four percent real growth rate forecast this year is in sharp contrast to recessionary conditions predicted for much of North America.

Similarly, Genstar operations in the U.S. are in areas that should grow even when the overall economy is weak. The sunbelt states, extending from the West Coast along the country's southern tier, continue to benefit from a steady influx of new residents.

Although high interest rates and limited availability of financing have severely curtailed new housing starts, the decline has been less dramatic in Western Canada and the American sunbelt than in other areas. Even this year, as builders begin to anticipate an upswing, Genstar expects continued success in the sale of developed land.

As conditions improve, the company is well positioned to meet increasing demand throughout the next decade. During that period, housing and land development activities will prosper, although their proportionate contributions to income will decline as other lines of business benefit from the Flintkote acquisition. In particular, Flintkote will complement Genstar participation in building materials, cement, and construction markets in North America.

Looking at the company as a whole, Genstar expects stable or improved performance by all of its major operations in 1980 and should continue to report satisfactory growth. As the economy strengthens, Genstar looks to the future with considerable confidence.

Board of Directors

Mr. Kelly H. Gibson retired from the Board of Directors on February 26, 1980. Genstar is indebted and grateful to Mr. Gibson for his service and many contributions to the company. Also on February 26, Mr. James D. Moran, Chairman and Chief Executive Officer of The Flintkote Company, was appointed a Genstar director.

Genstar People

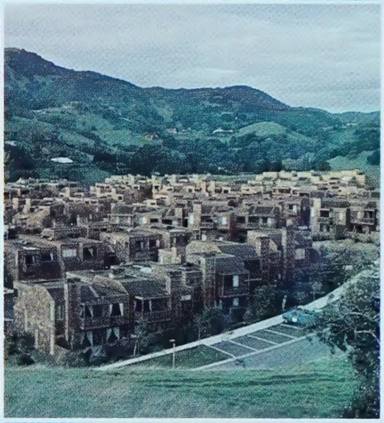
Members of the Board of Directors would like to thank the 10,500 Genstar employees for their individual contributions to another successful year. They would also like to extend a sincere welcome to the 9,000 Flintkote employees who have recently joined the Genstar organization.

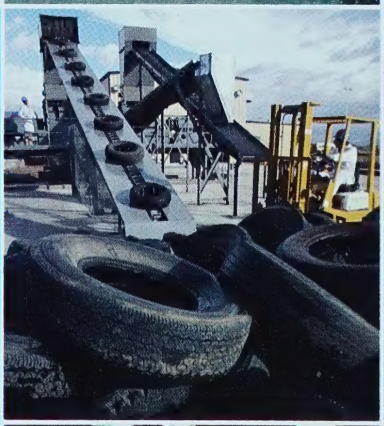
On behalf of the Board

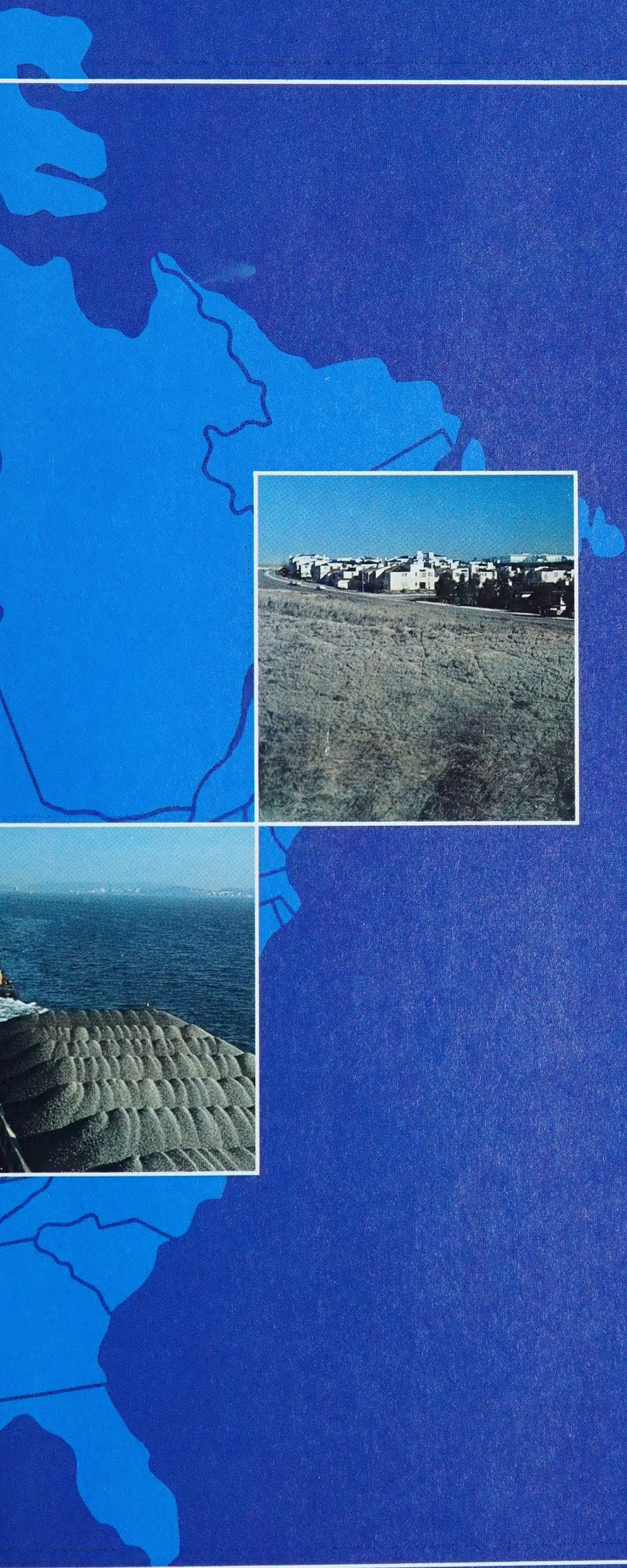
Angus A. MacNaughton
Vice Chairman

Ross J. Turner
President

Montreal, Canada
February 26, 1980







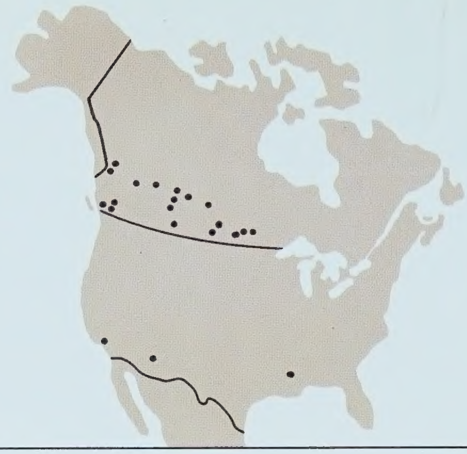
Genstar is comprised of more than 60 major operations. For financial reporting purposes, they are grouped on the pages that follow into seven industrial categories. These include:

- Building Materials
- Housing and Land Development
- Cement
- Construction
- Marine
- Financial Services
- Flintkote/Investments

Although its products complement other Genstar lines of business, commentary about Flintkote appears in the Investments section because it did not become a wholly-owned subsidiary until after year end.

Together, Genstar and Flintkote have more than 500 manufacturing plants, pits, quarries, equipment maintenance depots, product distribution centers, branch offices, and major housing and land development projects. The adjacent map symbolizes the overall scope of these operations, which are about equally divided between Canada and the United States.

A smaller map at the beginning of each industrial section pinpoints actual locations of key installations associated with that individual line of business. In areas where there are heavy concentrations of Genstar and Flintkote operations, a single dot on the map represents several activities.



Products:
Ready-mix concrete, concrete blocks, concrete pipe, sand, gravel, classified aggregates, lightweight aggregates, precast concrete structural and architectural components, precast concrete railway ties, gypsum wallboard, resources recovered from solid waste.

Plants:	Man.	Sask.	Alta.	B.C.	Total
Ready-mix concrete	4	3	9	9	25
Concrete block	1	1	2	4	8
Concrete pipe	1	1	4	2	8
Aggregate	3	3	6	4	16
Pits and quarries	4	18	10	4	36
Precast concrete	1	2	4	1	8
Gypsum wallboard	—	1	1	1	3
	14	29	36	25	104

Genstar building materials again produced record revenues and income, despite increased competition and poor weather early in 1979.

Operations were particularly strong in Alberta.

During the year, Genstar opened a new $1.5-million plant at Lloydminster, Alberta, to satisfy the heavy demand for ready-mix concrete, aggregate and concrete blocks. In addition, an expansion of the Edmonton concrete block plant was completed, and the company will build a new block plant at Red Deer, Alberta, in 1980. In Winnipeg, construction began on a $1.5-million gravel plant to replace an older, less efficient facility.

Genstar developed several new markets for precast concrete structures in 1979, selling them for municipal water supply reservoirs, for cooling towers at electric power generating plants, and for the storage and handling of sulphur in the petroleum industry. Last year the company also supplied the components and helped erect the tallest totally precast concrete structure in North America, a 31-story apartment building in Calgary.

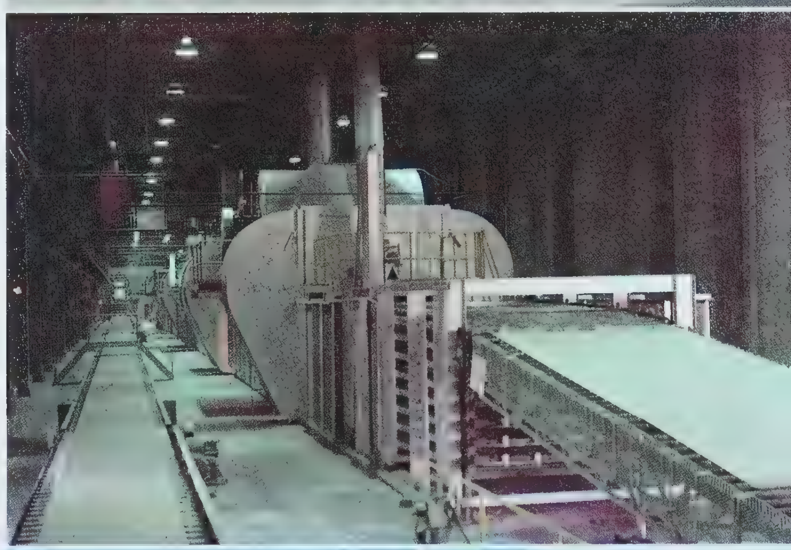
A joint venture that produces and markets precast concrete railway ties in Western Canada continues to do well. The rail tie plant in Edmonton is now operating at capacity, producing ties both for railroads and for the Calgary rapid transit system. A new plant, initially capable of manufacturing 150,000 ties annually, will be constructed in Richmond, Virginia, to introduce this product to U.S. markets.

The volume of gypsum wallboard sold by Genstar in 1979 increased in Alberta and Saskatchewan, although sales in British Columbia and Manitoba remained slow. A $5-million expansion of the Saskatchewan wallboard plant will increase its capacity by almost 80 percent when completed in May 1980.

Genstar established a waste management operation during 1979 to pursue businesses that involve waste disposal and energy or resource recovery. Initial projects include landfill and land reclamation, rubber recycling, methane gas recovery from landfills, and useful applications for fly ash and other industrial waste products.

In Phoenix, Arizona, Genstar will soon complete a $2-million rubber recycling plant that grinds old automobile tires into crumb-size rubber for use in road construction and maintenance. Genstar also acquired U.S. Rubber Reclaiming Company, Inc., in January 1980. Headquartered in Vicksburg, Mississippi, that company reprocesses the rubber in used tires and truck inner tubes for sale to manufacturers of new tires and other industrial rubber products. The company also sells ground rubber as an additive for specialized asphalt surfaces.

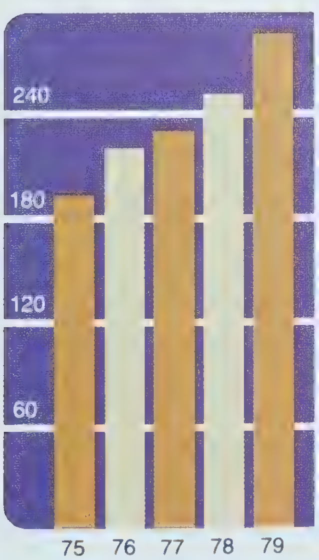
Left-to-right, top-to-bottom: •Genstar tugs and barges, loaded with raw materials, link the company's quarries with its manufacturing plants. • Precast concrete structures, both attractive and functional, found applications in several new markets last year. • Success of precast railway ties in Canada has prompted production and introduction of this product in the U.S. • Genstar is investing $5 million to expand capacity of its highly automated gypsum wallboard manufacturing facilities. • Among waste management operations are landfill and land reclamation activities that include recovery of methane gas for use as fuel. • A new Genstar plant in the U.S. recycles used automobile tires, grinding them into small particles for road construction and maintenance applications.



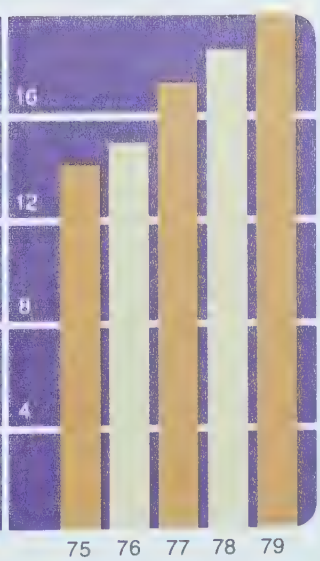
In other areas related to solid-waste management, Genstar received a contract during 1979 to recover and sell methane gas from a landfill site near Los Angeles, California. The company also intends to expand sales of fly ash, a pollutant produced by coal-fired power plant boilers, for use in concrete production, construction, and oil well drilling.

The outlook for Genstar building materials operations is favorable for 1980. The diversity of company activities should cushion the effects of a downturn in residential housing starts. In addition, emphasis will be placed on expanding existing operations and pursuing new growth opportunities in the waste management field.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



Products and Services:
Construction of single-family, duplex and townhouse units; manufacture of preassembled sections and component packages for the construction of residential units; shopping center development; condominium conversions. Development of residential, commercial and industrial land.

Areas of Operation:
The provinces of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario in Canada; the states of Washington, Oregon, California, Texas and Florida in the United States.

Despite a severe downturn in homebuilding during the last quarter of 1979, Genstar housing and land development operations recorded the best performance in their history.

Housing:
Housing starts, both in Canada and in the United States, generally declined from levels of the previous two years.

As had been anticipated, the downturn accelerated in the fourth quarter, primarily as a result of sharply higher interest rates. Escalating housing prices also increased buyer resistance and put more pressure on profit margins, particularly in Canada.

Despite these conditions, Genstar housing activities performed well, and inventories at year end were lower than in 1978.

Housing: Unit Sales

	1975	1976	1977	1978	1979
Canada	2,468	2,446	2,707	2,534	2,199
U.S.A.	440	797	997	945	1,178
Total	2,908	3,243	3,704	3,479	3,377

Recognizing the influence of geographic differences on the company's housing and land development markets, Genstar separated its Canadian and U.S. activities into two operating groups in 1979. Efficiencies were also achieved by combining all manufacturing units – the housing and cabinet manufacturing plants and lumber yard operations – into a single unit, Genstar Housing Components.

While the near-term outlook for the housing industry is not favorable, company activities are concentrated in regions of comparatively high growth.

Housing markets remain relatively strong in Western Canada, where Genstar builds and sells a large number of homes, and economies of these western provinces should continue to grow.

Similarly, Genstar homebuilding markets in the U.S. sunbelt still offer excellent growth potential.

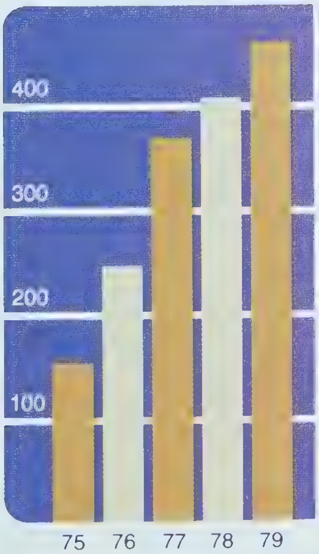
Top-to-bottom: • Summit Ridge, east of San Francisco Bay, is one of many successful Genstar housing projects.•• Revenues from land development as well as housing are produced by Crow Canyon in Northern California, built around a golf course, and by Castle Downs in Alberta, with its recently completed lake. In addition to homes built by Genstar, these communities include houses erected by other developers on land purchased from the company. Genstar frequently builds recreational amenities to enhance value of its property. • To achieve operating efficiencies, activities of the plant that preassembles structural components for residential construction were consolidated with those of cabinet making and lumber yard operations when the company formed Genstar Housing Components in 1979.

The uncertain outlook for housing starts in 1980 reflects the adverse impact of current financial trends.

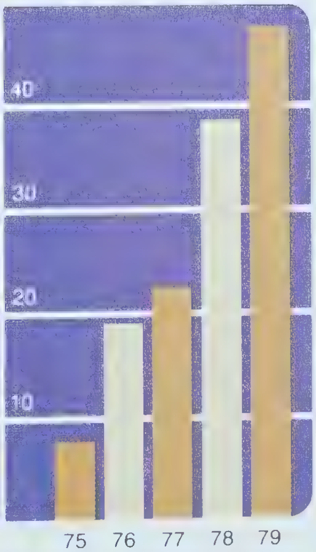
In particular, high interest rates are making it difficult for prospective customers to qualify for loans. This affects not only those entering the housing market for the first time, but also the "move-up" purchasers of new homes who must find qualified buyers for their existing residences.

Even while this problem persists, there remains a growing but unfilled public need for housing in the company's primary market areas. For that reason, as financing difficulties abate, demand should accelerate and new home sales noticeably improve.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



Land Development:
Performance of Genstar land development activities remained strong during 1979. Although profitability of Canadian operations declined from 1978 levels, U.S. operations showed a substantial increase.

No major land acquisitions or dispositions occurred in 1979.

At year end, total land inventories comprised 28,300 acres, with an additional 6,700 acres under option and several thousand more held by a partnership in Alberta.

In Canada, Genstar owns approximately 16,400 acres and has 1,600 acres under option. In partnership with another company, Genstar is also developing 11,700 additional acres.

In the United States, the company's land inventory consists of 11,900 acres, plus options on 5,100 more.

During 1979, land sales in British Columbia again increased, with the new Eagle Ridge development in Coquitlam coming on the market to replace the Harbour Village project recently completed in the same general area.

In Alberta, Genstar enjoyed continued success with its Castle Downs development in North Edmonton. During the year, the company completed work on a large lake on that property which is both attractive and functional. In addition to meeting the community's recreational needs, it also serves as a collecting reservoir that substantially reduced the size and cost of storm sewers.

Elsewhere in Canada, demand softened in the Manitoba market during the year. Winnipeg operations were still profitable, although at a lower level of activity. In Ontario, the Burlington development was virtually complete in 1979, while plans were approved to proceed with the new Glen Abbey community in Oakville.

In the United States, sales and net income substantially exceeded expectations at the Penasquitos land development project in San Diego, California. Consisting of 8,500 acres acquired in 1978, this land will be marketed as developed lots as well as in larger parcels.

The Crow Canyon development on the eastern side of San Francisco Bay, where construction commenced in 1976, was completed successfully last year. Built around a golf course, Crow Canyon is typical of many projects where Genstar creates recreational amenities to enhance the value of its land. A similar example is the prime residential development now under way at Rancho Bernardo in San Diego.

Interest ceilings imposed by state usury laws seriously affected operations in Texas last year. Although activities there have been scaled down until market conditions improve, work is proceeding at two developments in the Houston area, and serviced lots will be available for sale throughout 1980. Recently the usury statutes which created problems were temporarily suspended, and some improvement in land sales has already occurred. New legislation is now pending that would provide longer-term relief.

In Florida, Genstar completed the last three of five lakes at The Hammocks, a 1,000-acre project in Dade County. Construction of houses, as well as a small commercial development, is under way.

Top-to-bottom: • The company's largest U.S. landholding is in San Diego, California. Included are 800 acres at Rancho Bernardo, a well-developed residential area. • Nearby, massive earthmoving operations have begun on land acquired in 1978 with the purchase of Penasquitos Properties, an 8,500-acre tract that is already producing sales and earnings in excess of expectations. • Another major land development project, near Portland, Oregon, consists of 2,400 acres of residential, commercial and light industrial property.

The downturn in housing starts both in Canada and the U.S. will be felt most severely in the early part of 1980. Land development activities, however, are expected to show substantial improvement in net income during 1980, more than offsetting the anticipated decline in homebuilding. The public's need for new housing has not abated, and Genstar sales of developed property should continue at a good pace as builders prepare for better market conditions.

Products:
Normal portland cement, oil well cement, high early strength cement, masonry cement, sulphate-resistant cement and special potash cement.

Plants:	Annual Capacity (Short Tons)	No. of Kilns
Bamberton, B.C.*	500,000	3
Vancouver, B.C.	1,000,000	1
Edmonton, Alta.**	577,500	3
Regina, Sask.	227,500	1
Winnipeg, Man.	350,000	1
	2,655,000	9

*Scheduled to be phased out of operation at the end of 1980.
**Figures exclude 800,000-ton/1-kiln expansion in 1980.

Limestone Quarries and Deposits:
Texada Island and Cobble Hill, B.C.; Cadomin, Alberta; Mafeking and Steep Rock, Manitoba.

Cement Distribution Centers:
Fort Nelson, Kitimat and Prince George, B.C.; Calgary, Alberta; Saskatoon, Saskatchewan; Thunder Bay, Ontario.

Revenues and income from cement operations rose during the year as a result of improved sales in Alberta and Saskatchewan and increased exports to the United States from plants in British Columbia. Sales to the domestic market declined in Manitoba.

In Alberta, demand has exceeded Genstar capacity for the past four years and increased again in 1979 by approximately 20 percent. To meet commitments to this market, the company continued to purchase cement from producers in Eastern Canada even though high freight costs effectively eliminated resale profit margins.

The dependence on eastern cement to supplement Genstar production in Alberta will decline only when output increases at the company's Edmonton plant. An 800,000-short-ton expansion at that facility is expected to be completed in late 1980, more than doubling plant capacity.

In the last five months of 1979, the new Genstar cement plant in Vancouver steadily increased production after initial start-up delays. Based on current experience and operating results from similar preheater kilns, that plant's practical capacity should ultimately be 1,000,000 short tons per year. It is expected to be operating at about 75 percent of that in 1980.

The Bamberton, B.C., plant operated satisfactorily in 1979, even though it was originally scheduled to be closed more than a year ago. Because of the strong demand in the Western United States, it appears it will continue to supply export markets through 1980.

As anticipated and announced in last year's annual report, Genstar completed the sale of its cement operations in Eastern Canada during 1979.

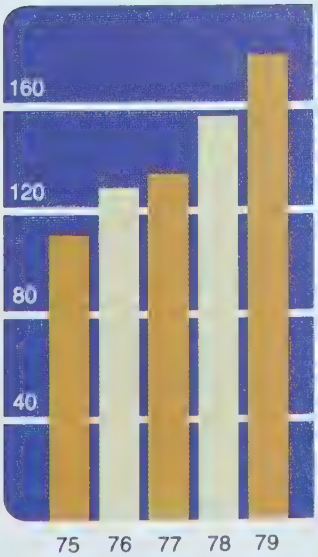
Capital expenditures for cement facilities during the year were nearly $50 million, almost double those of 1978. Approximately $6 million was spent to complete the Vancouver plant and $40 million for the plant expansion at Edmonton.

In 1980, capital expenditures are expected to be approximately $55 million, including about $39 million for the balance of the current Edmonton project. By year end, the plant construction and modernization programs of the past several years will have consolidated the company's cement manufacturing operations at four major sites. With a combined annual capacity of approximately 3,000,000 short tons, Genstar will remain the third largest manufacturer of cement in Canada.

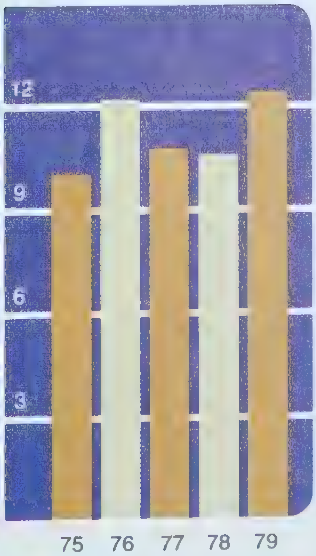
Top-to-bottom: • To keep pace with growing demand in Alberta, Genstar plans to increase annual output of its Edmonton cement plant by 800,000 short tons. This expansion, at an estimated cost of $143 million, will more than double plant capacity. Construction is well under way, and the project should be completed by year end. • To serve an expanding export market in the Western United States, Genstar completed construction in late 1978 of this new Vancouver plant which has a projected annual capacity of 1 million tons. Output is steadily increasing as that $100-million facility progresses through various stages of start-up.

The outlook for Genstar cement operations in 1980 is for earnings to improve as the Vancouver plant increases production and generates additional sales. Demand is expected to remain strong in Alberta and the Western United States, while moderate increases are projected in British Columbia and Saskatchewan.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



Services:
Construction Services Division: installation of municipal utility services, including water, sewer and lighting systems; street and road construction and paving; artificial lake construction; townsite development.

Engineering and Industrial Division: construction of hydroelectric dams, electric generating stations and transmission lines, highways, bridges, airports and major industrial plants; mine site development.

Plants:
12 asphalt plants located in Manitoba, Saskatchewan, Alberta, and British Columbia.

Genstar construction activities include those of the Construction Services Division, largely involved in land development and installation of municipal services and facilities in Western Canada, and the Engineering and Industrial Division, which pursues heavy construction projects in Canada and the U.S.

Construction Services had a good year in 1979, reflecting in part the vigorous growth of Alberta. About 20 percent of division activity is devoted to servicing Genstar land development projects. Subdivision servicing is also performed for other developers in Western Canada. In addition, the division successfully completed several contracts for gravel crushing and for freeway and interchange construction last year.

Results of the Engineering and Industrial Division in 1979 showed only slight improvement over 1978 performance.

Unprofitable contracts of the discontinued Montreal-based construction operations were completed in 1979, and anticipated losses had already been provided for in 1978.

In Northern Quebec, good progress was made on the James Bay hydroelectric plant contract. At year end, the $165-million joint-venture project was on schedule and 50 percent complete. A $13-million contract to construct dikes and control gates at James Bay was completed late in the year. Contractual difficulties, labor shortages, and start-up problems, however, resulted in a loss on that project in 1979. Negotiations are now under way to recover all or part of that loss as well as losses in prior years on the same contract.

Results in Western Canada were generally favorable, although a dispute between the client and the labor unions resulted in a work stoppage in July on the company's $8.3-million contract for drilling, blasting and earthmoving at the Duke Point shipping terminal and industrial complex in Nanaimo, British Columbia. A proposal to continue that project has been agreed upon, and it is expected losses incurred to date will be recovered.

Genstar is a 15 percent partner with other Canadian construction companies in a $282-million contract awarded during 1979 to build a powerhouse and concrete dam at Revelstoke, British Columbia.

In Manitoba, two joint-venture hydroelectric plant projects were successfully completed last year, and Genstar received a new $11-million contract to rehabilitate a powerhouse at Great Falls. Work also progressed satisfactorily on installation of the main hydroelectric power transmission line that will link Winnipeg with the U.S. border.

In the U.S., the company completed a $5.2-million contract for the U.S. Department of Energy at Hanford, Washington, excavating 3,000 feet of rock tunnels for use as nuclear-energy test facilities.

Approximately $6 million in new earthmoving equipment was put into service during 1979 at Penasquitos Properties, a Genstar land development project in San Diego, California. At that site, approximately 20 million cubic yards of earth must be moved by 1984.

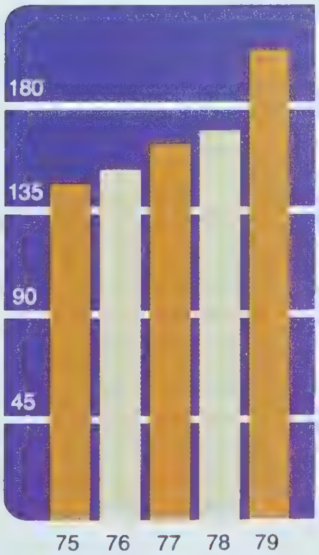
Top-to-bottom: • Work neared completion in 1979 on the $7.5-million electrical transmission line that will carry hydroelectric power between Winnipeg, Manitoba, and the U.S. border. • The majority of a $143-million expansion project at the Genstar cement plant in Edmonton, Alberta, is being carried out by the company's own construction operations. • Similarly, Genstar added $6 million in new equipment last year in Southern California for use in moving millions of tons of earth at the company's 8,500-acre land development project in San Diego.

To pursue new projects abroad on a selective basis, Genstar formed an international construction operation last year in Toronto, Ontario. In addition to serving the company's international construction interests, this unit will also seek new markets for other Genstar entities, such as the marine and building materials operations.

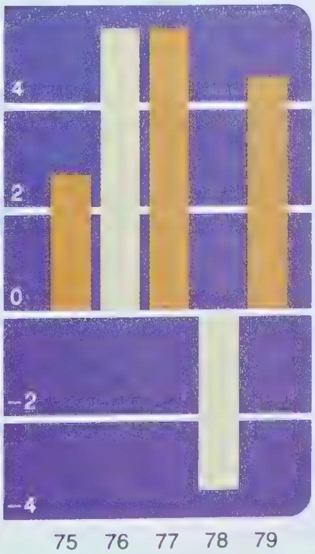
Total construction backlog for the Engineering and Industrial Division at year end amounted to $79 million, slightly above 1978 levels.

Although the construction industry is highly competitive in both Canada and the U.S., the outlook is for some improvement in company construction activities during 1980.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



MARINE

Services:
Tug and barge transportation (of logs, wood chips, pulp and paper, lumber, limerock, petroleum products, chemicals, trucks, containers, railway cars and large heavy-lift modular cargo); ferrying; berthing; lighterage; salvage; pollution control; shipbuilding; ship repairs.

Areas of Operation:
Pacific Coast of North America; the St. Lawrence River system and the Great Lakes; the Canadian and U.S. Arctic. Specialized marine transportation worldwide.

Equipment/Facilities:
58 tugs.
272 barges.
Shipbuilding yard: North Vancouver, B.C.
Ship repair yards: North Vancouver and Victoria, B.C.

The continued success of Genstar domestic marine activities, coupled with withdrawal early in the year from unprofitable international ventures, resulted in improved operating results in 1979.

West Coast tug and barge operations continued to prosper from strong demand for British Columbia forest products. Earnings, higher than 1978 levels, also benefitted from additional volume when Genstar was called upon to move large numbers of rail cars after a bridge was damaged in Vancouver harbor.

In response to large capital expenditure programs announced by major forest products companies in British Columbia, Genstar added five new chip barges to its West Coast fleet in 1979. A 6,000-HP tug and 400-foot barge, previously used in the company's international operations, were also put into service moving lumber from British Columbia to California. In addition, construction began on a new self-loading/self-dumping log barge to be placed in operation in mid-1980.

Work on the new log barge and three of the chip barges for western marine operations contributed to a rise in new construction revenues at the company's Vancouver shipyard. In addition, construction of a $4.5-million fish-processing barge was completed during the year.

Genstar ship repair revenues also increased substantially in 1979. Major repair jobs included extensive work on the "Ocean Ranger," the world's largest self-propelled drilling rig.

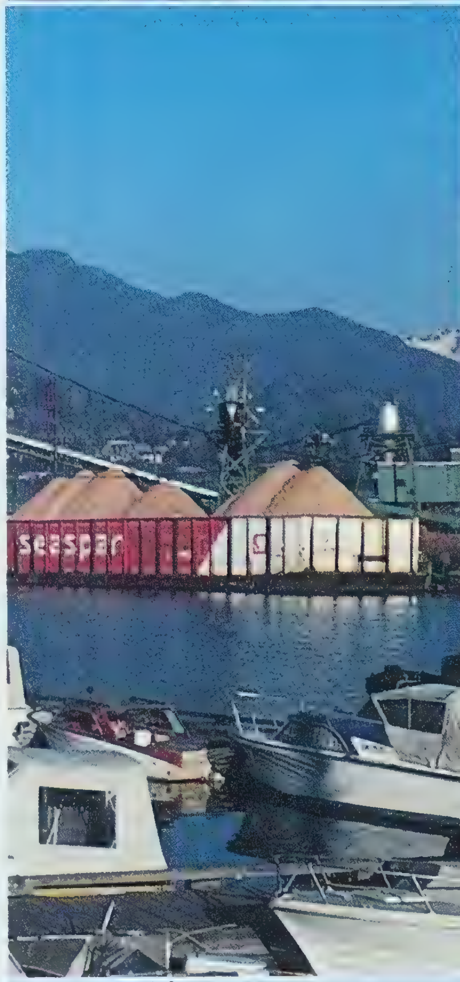
Early in the year, the company sold its one-third interest in Arctic Transportation Limited, which had been unprofitable. In the future, Genstar will independently pursue marine opportunities in the Arctic region.

The domestic East Coast marine operation, which is engaged in ship docking, towing, and salvage, had an excellent year.

Making significant contributions were 12 salvage projects in Eastern Canada and the U.S. which produced revenues and profits more than double those of any previous year. Major efforts included salvage of the stern section of a tanker containing 13,000 tons of oil and the raising, for subsequent sale, of a 124,000-ton tanker that had burned and sunk at its berth. In raising the tanker, Genstar used both computer analysis and a unique method of reducing potentially destructive wave action inside the vessel. While ship casualties cannot be predicted, innovations such as these should contribute to future success of salvage operations.

Early in 1979, Genstar withdrew from several unprofitable marine joint ventures outside the North American continent. The company sold its interests in an operation that provided barge service between Marseille,

Top-to-bottom, left-to-right: • In response to strong demand for British Columbia forest products, Genstar has begun construction of a new self-loading/self-dumping log barge, to be commissioned in mid-1980. • More chip barges were also added to the company's Seaspan fleet in 1979. • Construction of these and other vessels, coupled with a rise in ship repair work, contributed to increased revenues and earnings last year at Genstar shipyards. • One of the company's 58 tugboats performs routine towing tasks in Vancouver harbor.

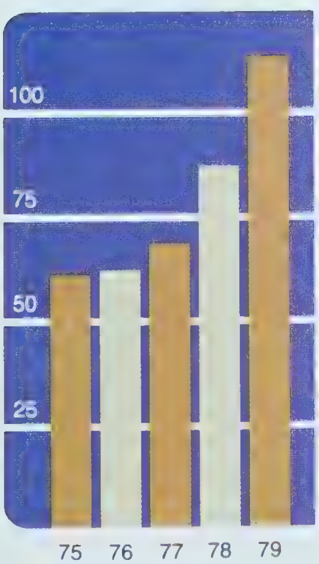


France, and Yanbu, Saudi Arabia, and disbanded an ocean-towing joint venture. Some of the ocean-towing marine equipment has already been redeployed profitably in domestic Genstar operations.

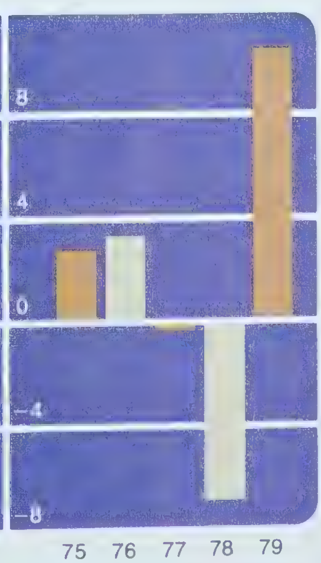
The balance remains in international service at improved rates of utilization. Promising international markets include offshore drilling sites in the Gulf of Mexico, where Genstar also assisted last year in cleaning up the IXTOC I oil spill, and the movement of large heavy-lift modules between Japan, the Middle East, and North America.

The outlook for marine operations is generally favorable for 1980. West Coast operations should continue at present levels in view of the steady demand for British Columbia forest products. East Coast salvage activities should maintain a good pace. Restructured international operations, already experiencing a strengthening of rates, are expected to improve during the year.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



Services:
Mortgage banking; rental of electronic test and measurement equipment; real estate joint-venture financing; venture capital investment; thrift and loan operations; title insurance and escrow services; property and casualty insurance; marine financing.

Income in 1979 from financial services was lower than the prior year only because of an exceptionally large gain in 1978 when Genstar exchanged interests in Qume Corporation for 970,000 shares of International Telephone and Telegraph Corporation. Excluding that single transaction from year-to-year comparisons, results from operations improved in 1979. Earnings benefited particularly from strong performances by title insurance and real estate joint-venture activities, from the addition of Rental Electronics in late 1978, and from the purchase of Western Mortgage Corporation in early 1979.

The latter is a mortgage banking organization with 10 branch offices, primarily in California. After initiating an active program last year to expand its loan portfolio, Western now services investments in excess of U.S. $2.4 billion for more than 200 institutional clients. In 1980, this operation is expected to further enlarge its portfolio and increase servicing income. It also recently entered the second-mortgage lending market.

Genstar real estate joint-venture activities are conducted by divisions in San Francisco and Irvine, California. They provide equity financing in exchange for partnership interests in the development of residential housing, land, condominium conversions, garden-office buildings, shopping centers, apartments, and industrial complexes.

In 1979, Genstar participated in joint ventures that delivered more than 3,100 residential units in California, Nevada, Texas, Arizona and Washington. These ventures also marketed 250 building lots and began construction of commercial developments totalling more than 650,000 square feet.

At year end, the company was financing 55 joint ventures, most of which will be completed in 18 months. Although 1980 may be a difficult year for real estate in general, the strategy of investing in proven growth areas with carefully selected partners should mitigate many of the adverse conditions.

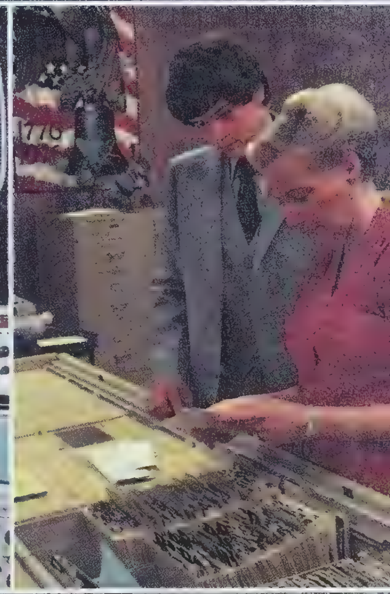
Rental Electronics rents electronic test and measurement equipment on a short-term basis through 19 sales offices in the U.S. and Canada. This operation serves a wide range of customers in the electronics, automotive, telecommunications, petrochemical, data processing, and financial services industries.

In 1979, Rental Electronics revenues and earnings set new records, and more than U.S. $14 million was invested in new equipment. After selling used equipment, value of the rental inventory now exceeds U.S. $29 million. This represents a substantial increase since 1978, and utilization rates are high. The outlook for 1980 is excellent as this operation seeks new markets and increases penetration of existing ones.

First American Title Guaranty Company provides title insurance and escrow services in Northern California through four regional and 23 branch offices. As operating efficiencies were achieved last year and fees rose in proportion to escalating housing prices, revenues and earnings of this subsidiary in 1979 reached the highest levels in its 15-year history. Returns are expected to decline somewhat in 1980, however, in response to a general softening of the housing market.

Atlas Thrift Company, acquired by Genstar in 1978, now has a total of 13 offices after opening several new ones in California last year and establishing operations in Nevada for the first time. Although expansion costs impacted earnings in 1979, deposits in thrift accounts were up at year end, and performance should improve in 1980.

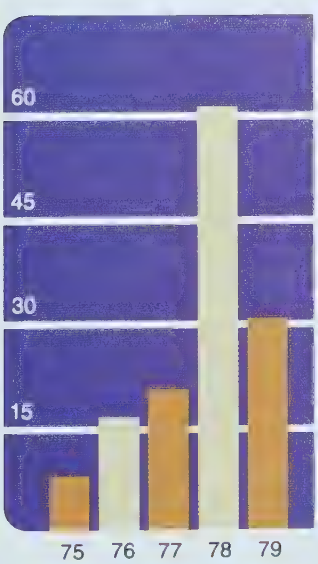
Top-to-bottom, left-to-right: • Western Mortgage Corporation now manages a loan portfolio of more than U.S. $2.4 billion for its institutional investors. • Rental Electronics reported record results last year and invested U.S. $14 million to upgrade its inventory of test and measurement equipment. • Atlas Thrift opened several new branches in 1979, including the first ones in Nevada. • Revenues and earnings of First American Title Guaranty Company last year were the highest in its 15-year history. • The Genstar venture-capital portfolio now contains 41 investments in companies such as Priam Corporation, which has successfully completed developmental work on its peripheral Winchester disc drives and begun manufacturing these data storage devices for the minicomputer industry.



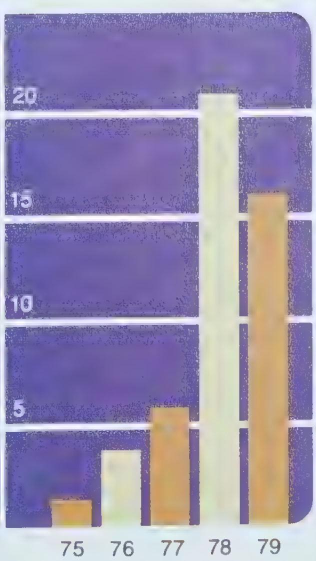
Sutter Hill, the company's venture capital arm, makes equity investments in high-technology companies during their early stages of development. A good example is Qume Corporation, which contributed significantly to record earnings by this line of business in 1978. These investments are held for long-term appreciation, and Genstar had 41 in its portfolio at year end.

The company intends to increase its participation in financial services markets, both by internal growth and through acquisition. These activities are expected to show modest improvements in revenues and earnings in 1980.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



Included in this category are the chemical and fertilizer operations and the investment in The Flintkote Company.

After acquiring a 21.5 percent interest in The Flintkote Company during 1978, Genstar increased its ownership in late 1979 through a cash tender offer made for remaining shares. Following a merger in February 1980, Flintkote became a wholly-owned Genstar subsidiary. Although the Flintkote balance sheet is included in this report's financial statement, only the proportionate share of earnings applicable to interests held throughout the year is reported as 1979 Genstar income in the investments line of business.

Genstar chemical and fertilizer operations had a profitable year as a result of improved market conditions and increased production efficiencies. Further improvement in chemical operations is expected in 1980 as demand and prices for ammonia and derivatives continue to rise in the U.S. and Canada. In July, Genstar and Noranda Mines Limited formed a joint venture, Nutrite Inc., to which Genstar sold its mixed fertilizer operations. That venture will purchase from Genstar and Noranda the three primary nutrients required in the manufacture of fertilizers.

The Flintkote Company

Sales and earnings of The Flintkote Company in 1979 again reached record levels. Revenues increased 19 percent to U.S. $869 million, and net income rose 20 percent to U.S. $45.3 million. This compares with revenues of U.S. $732 million and earnings of U.S. $37.7 million in 1978.

Flintkote is engaged in the manufacturing, distribution and sale of building and construction materials and in providing certain construction services. Most markets for Flintkote products and services remained strong throughout 1979.

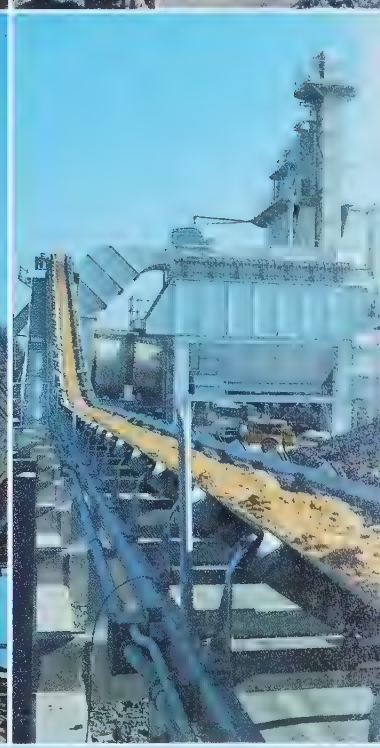
Two factors made substantial contributions to earnings growth. Extensive capital improvement programs in recent years have modernized and increased the cost-effectiveness of production facilities, and significant marketing strength has been gained through an expanded product distribution system.

Building products, the largest line of business, includes roofing materials, gypsum wallboard, flooring products, and The Flintkote Supply Company's chain of product distribution centers. This business area is the most sensitive to homebuilding activity. Despite declining housing starts in the second half of the year, building products sales increased over 1978, while contributions to income were down slightly from the year before.

Improved customer service, enhanced by the expanded product distribution system, helped secure a larger share of available building products business. The Flintkote Supply Company now has 47 outlets, mainly in the thriving sunbelt area of the United States, and 11 more are expected to open in 1980. Sales produced by these centers have increased substantially in each of the past five years.

Cement, lime, and stone products reported large gains in sales and earning in 1979. This group of products is less sensitive to homebuilding trends and benefited from increased non-residential construction and from a continued high level of repair and modernization activities.

Approximately 90 percent of Flintkote revenues are generated by U.S. operations. The balance comes from Canadian enterprises, which consist of home maintenance, flooring and paving products operations, 21 Stradwick retail flooring stores, and the King Paving and Materials Division. The latter, a crushed stone products and contract construction unit, reported increased sales and earnings in 1979. Results of the other operations were disappointing however. Total revenues of Canadian businesses in 1979 were up somewhat, but income was approximately the same as a year ago.

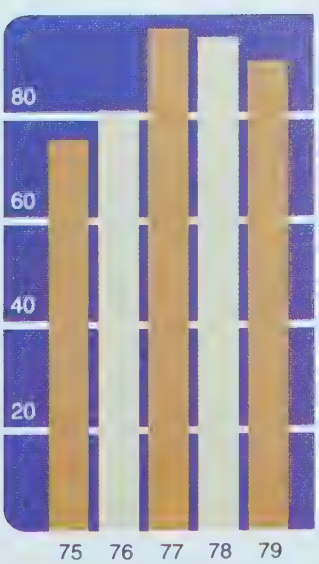


Top-to-bottom, left-to-right: • Flintkote Supply Company's distribution centers provide roofing, gypsum products, and a complete range of other materials directly to the builder. • This new, energy-efficient, 1,800-ton-a-day lime plant is one of the largest in the U.S. • Flintkote quarries are valuable assets that will supply calcium carbonate, construction-grade limestone, and other natural resources for many decades to come. • One section of a huge kiln is lowered into position at the Flintkote cement plant in Redding, California, where a U.S. $40-million expansion program will more than double plant capacity. • Raw materials from a company quarry are conveyed to a Flintkote bituminous concrete (asphalt) plant that, in turn, supplies the company's own construction units as well as other contractors. • Flintkote delivers ready-mix concrete from its plants to the job site.

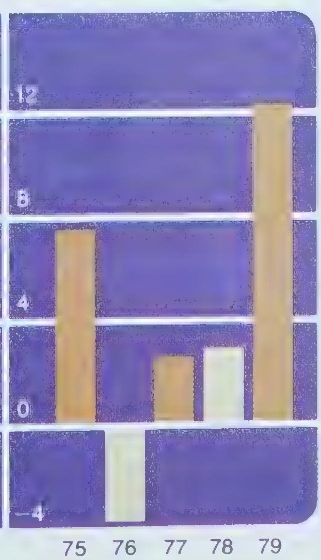
In preparation for future growth and to further improve operating efficiency, a U.S. $40-million expansion is under way that will double output of the Flintkote cement plant in Redding, California. Upon completion in late 1980, production capacity will increase from 290,000 to 600,000 tons annually, making substantial contributions to sales and earnings. The Florence, Colorado, gypsum plant is also being expanded, and its capacity will increase more than 50 percent early this year.

Although earnings will be under pressure in 1980 because of declining housing starts, other key markets should remain strong. Also, with its cost-competitive manufacturing facilities and its expanded marketing organization, Flintkote is well positioned to capture a larger share of available homebuilding business than in previous downturns. These factors will contribute to the future growth and profitability of Flintkote.

Revenues
(millions of dollars)



Net Income
(millions of dollars)



GENSTAR

FINANCIAL REVIEW

SUMMARY OF FINANCIAL HIGHLIGHTS

For the five years ended December 31, 1979
(millions of Canadian dollars)

	1979	1978	1977	1976	1975	Five Year Compound Growth Rates	Ten Year Compound Growth Rates
Revenues	**1,264.6**	1,143.0	981.1	821.5	684.3	17%	21%
Costs and expenses							
Cost of sales and services	**856.1**	778.0	677.9	565.1	491.5		
Selling, general and administrative	**117.0**	116.3	98.2	81.1	59.8		
Depreciation, depletion and amortization	**39.1**	50.2	34.7	32.3	26.5		
Interest	**65.2**	49.9	49.3	40.2	21.9		
	1,077.4	994.4	860.1	718.7	599.7		
Income before income taxes	**187.2**	148.6	121.0	102.8	84.6	22%	27%
Provision for income taxes	**63.6**	67.0	56.6	47.1	37.4		
Net income	**$ 123.6**	$ 81.6	$ 64.4	$ 55.7	$ 47.2	29%	30%
Per common share							
Net income –							
Canadian method							
Basic	**$ 4.21**	$ 3.02	$ 2.53	$ 2.32	$ 2.02	22%	22%
Fully diluted	**3.96**	2.87	2.33	2.09	1.81	24%	21%
United States method							
Basic	**4.16**	3.00	2.51	2.29	2.01	22%	22%
Fully diluted	**3.98**	2.90	2.36	2.12	1.84	24%	21%
Dividends	**1.25**	0.81	0.71	0.63	0.60	19%	14%
Return on net assets	**12.2%***	9.0%	8.5%	7.5%	10.4%		
Capitalization ratios							
Total debt to equity	**63:37**	49:51	62:38	67:33	49:51		
Long-term debt to equity	**53:47**	32:68	50:50	52:48	39:61		
Other statistics (millions except for employees)							
Shareholders' equity	**$641.6**	$556.1	$368.2	$315.6	$263.6		
Working capital	**299.3**	268.6	108.5	114.7	103.1		
Funds from operations	**156.6**	116.2	108.6	93.8	77.1		
Capital expenditures	**106.1**	52.8	107.1	89.7	67.6		
Fixed assets	**902.8**	626.4	671.8	563.8	490.5		
Net assets	**1,912.4**	1,207.5	1,064.2	1,034.3	571.8		
Common shares outstanding							
Actual	**27.4**	26.8	25.8	23.8	23.0		
Average	**27.3**	26.4	25.1	23.5	22.7		
Number of employees	**19,850**	10,428	11,007	10,695	10,125		

*excluding the net assets and operations of The Flintkote Company which were acquired effective December 31, 1979.

Operating Highlights

Net income increased to $123.6 million or $4.21 per common share in 1979 compared to $81.6 million or restated $3.02 per common share in 1978. Per share income increased 39 percent in the year, well in excess of the five and ten year compound growth rates. Average shares outstanding used in calculating income per common share increased to 27,274,000 shares in 1979 from 26,376,000 in 1978. The restatement in 1978 reflects the two-for-one common stock split which was approved by shareholders on May 9, 1979.

United States:

Net income from United States operations was $37.6 million in 1979, up from $26.2 million in 1978. Included in the current year is a $7.5 million unrealized foreign exchange translation gain compared to a foreign exchange translation loss of $3.4 million in 1978. Income from financial services subsidiaries acquired in the past 15 months made a positive contribution, and income from Penasquitos Properties, an 8,500-acre land development project in San Diego acquired in the fourth quarter of 1978, exceeded expectations.

The most significant event was the acquisition of The Flintkote Company by a cash tender offer in the last quarter of 1979 followed by a merger with a Genstar subsidiary on February 8, 1980. The assets and liabilities of Flintkote are included in the Genstar consolidated balance sheet as at December 31, 1979, accounting for approximately $800 million of total assets.

The consolidated income statement, however, includes only the proportionate share of Flintkote income represented by Genstar ownership throughout 1979.

Canada:

The start-up of the new Vancouver cement plant, expansion of the Edmonton cement plant, commencement of construction of the Limeridge Mall shopping center in Hamilton, Ontario, and the first-phase servicing of the Glen Abbey land assembly in Oakville, Ontario, were significant achievements which will benefit Genstar in years to come.

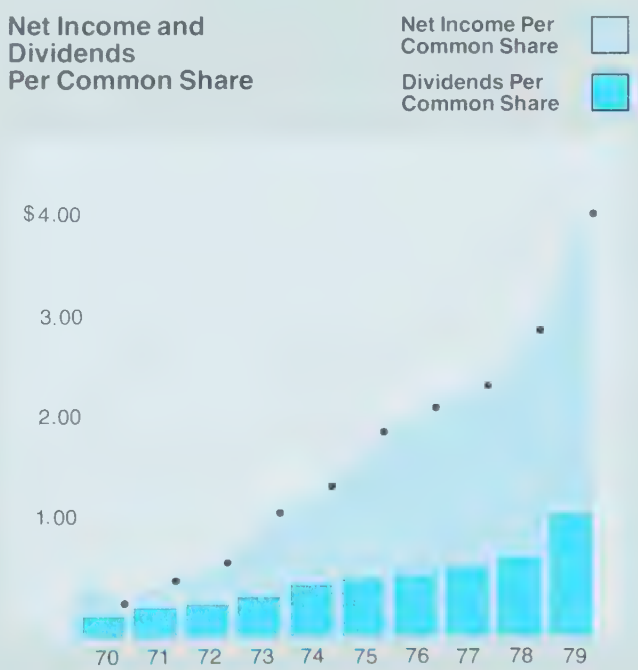
Operationally, most activities in Western Canada reported increased income reflecting buoyant economic conditions, particularly in Alberta, and mild early winter weather which allowed construction-related industries to continue beyond normal shutdown dates.

Although the rapid escalation of interest rates in the last quarter of 1979 dampened demand, housing operations were slightly more profitable than in 1978. Land development operations in 1979 did not generate as much income as last year when several sizable parcels were sold.

Operating Performance

As a diversified operating corporation, Genstar has built and brought together businesses which have produced a growing stream of earnings for the company. The graph illustrates the Genstar ten year net income and dividend per share record. Net income per share has grown by 22 percent annually since 1970 as a result of improved profitabilty and expanded operations across Western Canada and throughout the Western and Southern United States. This income growth has meant that Genstar has been able to steadily increase its dividend to shareholders. Over the past ten years, the Genstar dividend per common share has increased at an annual rate of 14 percent, ranking Genstar 13th among the top 50 Canadian industrial and utility corporations. Growth was maintained in spite of Canadian government controls on the payment of dividends from 1976 to 1978 and the need for earnings to be retained within the company to finance expansion.

Net Income and Dividends Per Common Share

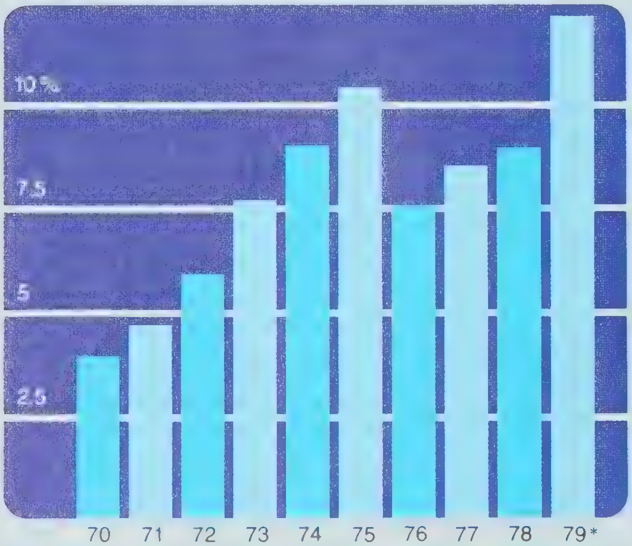


Performance Measurement

To measure the returns generated by Genstar and the industrial categories which make up the company, Genstar uses a return on net assets ratio. This performance ratio is a measurement of after-tax income before interest as a percentage of capital employed.

The ten-year graph illustrates the impact of two very significant acquisitions on the Genstar return on net assets ratio. In 1979, return on net assets was 12.2 percent on Genstar operations. With the addition of Flintkote effective December 31, 1979, however, the net asset base increased from $1.4 to $1.9 billion, and return on net assets based on year-end amounts was 8.7 percent. This is similar to the effect in 1976 when Genstar acquired a large land and commercial development company, greatly expanding the Genstar net asset base without reflecting a full year's income from that acquisition. Expansion of the Genstar net asset base in 1979 is expected to provide for future earnings growth for the corporation.

Return on Net Assets



*assumes that the net assets of The Flintkote Company are not consolidated; return on net assets would be 8.7 percent if the net assets of Flintkote were consolidated

Return on common shareholders' equity has increased from 4.8 percent in 1970 to 22.9 percent in 1979, a record high for Genstar. With continuing annual inflation rates at double digit levels, Genstar believes that returns of this magnitude are required to maintain capital expansion over the longer term.

Asset Management

An important aspect of the Genstar operating strategy has been to locate activities in areas of above average growth. In line with stated corporate objectives to expand operations in the United States' "sunbelt," Genstar U.S. revenues increased from 21 percent in 1978 to 24 percent in 1979, operating income was constant at 31 percent, and identifiable assets increased from 35 percent to 56 percent reflecting the acquisition of Flintkote. This trend is forecast to continue in 1980 with revenues, operating income and identifiable assets in the United States approximating 50 percent of Genstar operations.

Capital Expenditures

Genstar has invested over $400 million during the past five years to expand facilities to meet market demand and to keep Genstar plants and equipment efficient. In 1979, capital expenditures totalled $106 million, double the expenditures of $53 million made in 1978. In 1980, including planned expenditures of The Flintkote Company, total capital expenditures will be more than $200 million.

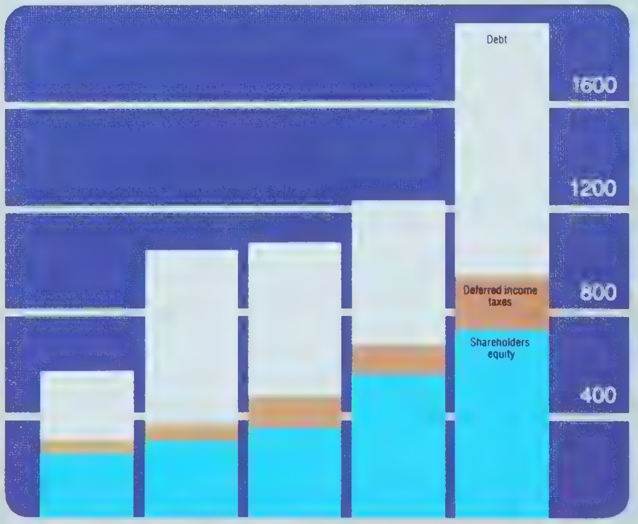
Capitalization

Genstar is financed with short and long-term debt, deferred income taxes and shareholders' equity. The acquisition of The Flintkote Company was financed with a bank term loan and, at year-end 1979, the total Genstar debt-to-equity ratio increased from 49:51 in 1978 to 63:37. With the sale of $94,500,000 of Series C second preferred shares in early 1980, Genstar has taken its first step in returning its total debt-to-equity ratio to a level more appropriate for the company's mix of businesses.

Including the Series C second preferred shares in the 1979 balance sheet, the total debt to equity ratio would have been 58:42.

The sale of Series C second preferred shares completed in February 1980, together with aggressive asset management and cash flow from operations, is expected to lead to a reduction in the Genstar total debt-to-equity ratio in 1980 and beyond.

Capitalization (millions of dollars)



Debt: Equity Ratio

49:51	67:33	62:38	49:51	58:42
1975	1976	1977	1978	1979*

*assumes the issue of 3,000,000 Series C second preferred shares for $94,500,000 which occurred in February 1980

Capitalization by Industrial Category

Industrial Category	Net Assets	Financed by				Ratios			
		Short-Term Debt	Long-Term Debt	Deferred Income Taxes	Equity	Total Debt to Equity 1979	Total Debt to Equity 1978	Long-Term Debt to Equity 1979	Long-Term Debt to Equity 1978
		(millions of dollars)				(percent)		(percent)	
Building materials	148.6	17.4	31.7	25.8	73.7	**40:60**	40:60	**30:70**	30:70
Cement	225.9	17.1	47.0	65.7	96.1	**40:60**	40:60	**33:67**	33:67
Housing and land development	556.0	156.9	172.8	5.6	220.7	**60:40**	60:40	**44:56**	30:70
Construction	40.1	9.8	7.4	5.6	17.3	**50:50**	50:50	**30:70**	30:70
Marine	94.0	9.2	36.3	18.2	30.3	**60:40**	60:40	**55:45**	55:45
Financial services	189.5	4.5	41.0	7.3	136.7	**25:75**	30:70	**23:77**	27:73
Investments	107.4	3.7	29.2	7.7	66.8	**33:67**	33:67	**30:70**	30:70
Before Flintkote acquisition	$1,361.5	$218.6	$365.4	$135.9	$641.6	**48:52**	49:51	**36:64**	32:68
After Flintkote acquisition	$1,912.4	$357.5	$729.4	$183.9	$641.6	**63:37**	49:51	**53:47**	32:68

Capitalization by Industrial Category
Genstar activities are financed by debt and equity capital allocated among the industrial categories based upon financing ratios generally accepted as appropriate for each type of activity. The table above represents the net assets and financing structure of Genstar immediately prior to the acquisition of Flintkote. It illustrates the importance of reinvested income and deferred taxes in financing a 1979 net asset growth of over 10 percent while maintaining 1978 ratios of debt and equity.

Revenues
In 1979, revenues increased $122 million compared to a $162 million increase in 1978. An analysis of changes by industrial category follows:

	1979	1978
	(millions of dollars)	
Increase (Decrease)		
Building materials	**38**	11
Cement	**21**	24
Housing and land development	**57**	31
Construction	**35**	6
Marine	**26**	18
Financial services	**(30)**	40
Investments	**(5)**	(1)
	142	129
Decrease (Increase) in inter-category revenues	**(20)**	33
	$122	$162

United States land and housing revenues increased by $74 million in 1979 primarily as a result of sales of land in San Diego and in other regions of California. A full year of equity accounting for the income of an Alberta land partnership formed in 1978 and a lack of inventory in Ontario resulted in a decrease of $23 million for Canadian land revenues in 1979. The partnership also resulted in a 1978 land revenue decrease of $17 million from 1977. A $35 million increase in United States land and housing revenues in 1978 resulted from sales increases in California, the sale of land holdings in the Northeast, and new operations in Florida and Texas.

Strong demand in Alberta was a major factor in 1979 revenue increases of $52 million for building materials and $49 million for cement operations and more than offset the effect of the disposal in early 1979 of Eastern Canadian cement and building materials operations. Improved production from the recently constructed Vancouver cement facility also contributed to the revenue increase. In 1978 the cement revenue increase resulted from high demand in Alberta which was met in part by purchases from producers in Eastern Canada.

The high level of activity in the British Columbia forest products industry was the main factor in marine revenue increases in both 1979 and 1978. Revenues in 1979 also benefitted from increased salvage activity on the Great Lakes and in U.S. coastal waters and from the termination of overseas marine joint ventures. Financial services revenues decreased in 1979 and increased in 1978 primarily as a result of a significant sale of a venture capital investment in 1978.

Revenues from California real estate joint venture financing activities remained constant after an increase of $9 million in 1978, the first full year of operations.

The increase in 1979 and decrease in 1978 inter-category revenues are attributable to the amount of work performed in each year by the construction division for the cement and land divisions. The construction division is the general contractor on the Edmonton cement plant expansion and, in addition, performs servicing work for the company's land development divisions. The construction division also increased revenues from third party contracts by $16 million in 1979 and $39 million in 1978.

Cost of Sales and Services

Cost of sales and services was 67.7 percent of revenues in 1979 compared to 68.1 percent in 1978 and 69.1 percent in 1977. This decreasing trend results from increased contribution in 1978 and again in 1979 of income from the Alberta land partnership, California real estate financing joint ventures, non-consolidated financial services subsidiaries, and the minority investment in The Flintkote Company, all of which are included on the equity method of accounting. These reductions were partially offset by 1978 losses on international marine joint ventures and Eastern Canadian construction operations and by increases in building materials and cement costs in both years.

Expenses

Before an unrealized foreign exchange gain of $7.5 million in 1979 and a loss of $3.4 million in 1978, selling, general and administrative expenses increased by $12 million or 10 percent in 1979 and by $18 million or 18 percent in 1978. In 1979, continued volume-related increases in United States land and housing operations and additional corporate professional services costs resulted in a $12 million increase compared to a $10 million increase in 1978. Lower venture capital activity and disposal of building material and cement operations in Eastern Canada offset 1979 inflationary and volume-related increases in Western Canadian building materials and construction operations. The balance of the 1978 increase relates primarily to administrative costs during construction of expanded cement capacity, housing volume increases in Western Canada, and greater outside service costs of a general corporate nature.

Depreciation, Depletion and Amortization

Depreciation, depletion and amortization decreased by $11 million in 1979 after a $16 million increase in 1978 primarily as a result of $13 million of additional 1978 depreciation to reflect the reduced utility of the international marine fleet and of chemical facilities at Maitland, Ontario, and 1979 building material depreciation of $2 million for reduced estimated useful life of a quarry. Additional 1979 depreciation, related to increased Western Canadian cement division capital expenditure and construction activity, was offset by reductions resulting from the disposal of revenue property and Eastern Canadian building material and cement operations. In 1978 reduced depreciation from the sale of certain revenue properties partially offset the effect of increased capital expenditures in Western Canadian cement and marine divisions.

Interest Expense

Total interest expense was $65 million in 1979 and $50 million in 1978. Higher interest rates and the cost of financing increased investment in financial services subsidiaries and other United States operations were the primary factors in the increase. Interest expense increased slightly in 1978 with increased rates and the cost of financing expanded United States operations and cement investments in Western Canada offset by reductions in Canadian land and housing and revenue property financing costs.

Income Taxes

The effective income tax rate in 1979 was 34 percent, down significantly from 45 percent in 1978. The lower rate in 1979 is the result of a reorganization of the Canadian corporate structure over the past three years as well as the lower tax rates applicable to the income of Genstar international finance subsidiaries. In addition, the after-tax equity consolidation of the income of certain financial services subsidiaries and the proportionate Genstar share of income of The Flintkote Company has reduced the income tax rate.

The company's expansion program into the United States is funded through international finance subsidiaries. These subsidiaries earn interest income, which is taxed at lower rates, by lending funds to United States subsidiaries to finance their expansion. Some of the income earned by these international subsidiaries would be taxed if repatriated to Canada, but with an ongoing major expansion in the United States, it is unlikely that the income will be repatriated in the near future.

In 1978, income from international finance subsidiaries was more than offset by losses incurred in international marine operations. Upon termination of these operations in early 1979, the income from inter-market financing resulted in a significant increase in income tax at lower rates.

Genstar anticipates continued expansion in the United States in the future, to be financed by both operating cash flow and inter-market financing. The recently-completed acquisition of Flintkote and the funds required to finance their medium-term capital expenditure program will result in a reduced income tax rate into the future.

Common Stock
Information in the accompanying graph has been restated to reflect the 1979 two-for-one common stock split. Common shares are listed on the New York, Toronto, Montreal, Alberta, Vancouver, Brussels, Antwerp, Zurich, Geneva and Basel exchanges. There were 27,380,000 common shares outstanding at December 31, 1979, of which 22,210,000 were registered in the name of the holder and the balance were in bearer form. Of the registered shares, 59 percent were owned by Canadian residents, 9 percent were owned by United States residents and 32 percent were owned by others, primarily resident in Europe. The company believes that the bearer shares are generally owned by European investors.

Quarterly trading volume and market price range information for 1979 and 1978 is included in Note 19 to the Consolidated Financial Statements.

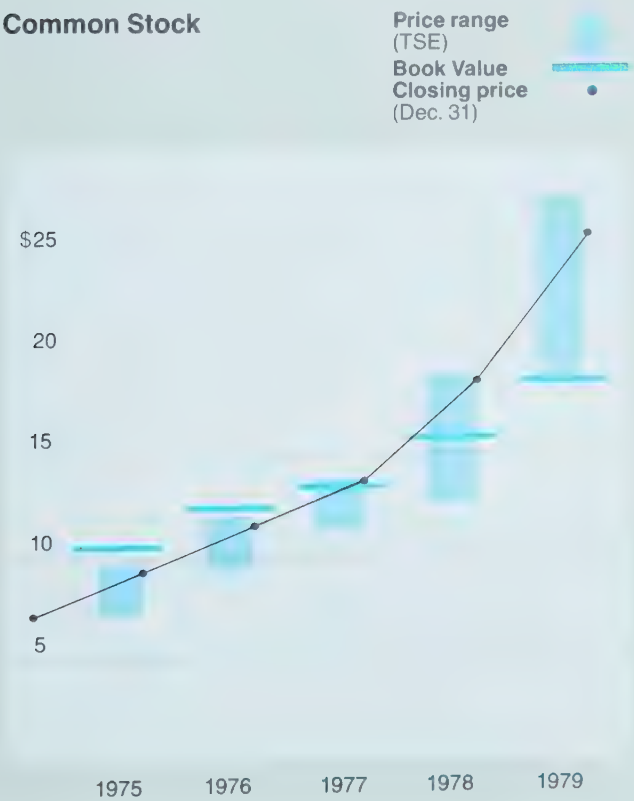
Preferred Stock
The Series A, B, and D preferred shares were issued in exchange for shares of subsidiaries. The Series B and D preferred shares are listed on various Canadian stock exchanges, and the Series A shares are not listed. Trading volume in 1979 for the Series B and D shares was minimal.

There are four series of second preferred shares authorized for issuance, two of which were issued prior to December 31, 1979. No other shares ranking prior to the second preferred shares as a class can be issued without the authorization of the second preferred shareholders. The Series A second preferred shares were privately placed with a Canadian bank in 1978, and the SP-79 second preferred shares were issued to officers and other employees of the company under the terms of the 1979 Stock Purchase Plan. Refer to Notes 11 and 12 to the Consolidated Financial Statements for further information concerning these shares.

The Series B second preferred shares were issued on January 9, 1980, in an exchange for the shares of U.S. Rubber Reclaiming Co., Inc. The 439,181 shares have been listed on the New York Stock Exchange.

The Series C second preferred shares were issued pursuant to a public offering in Canada on February 14, 1980. These shares, designated as voting cumulative convertible redeemable second preferred, were issued at $31.50 each and bear an annual dividend of $2.35 payable quarterly. The 3,000,000 issued shares are listed on the Toronto and Montreal stock exchanges.

Common Stock



Inter-Category Revenues
Sales of goods and services between categories are at market price. Industrial category revenues include inter-category revenues of $104 million in 1979 and $84 million in 1978 which are eliminated from consolidated revenues and cost of revenues in the company's consolidated statements of income.

Joint Venture Income
Included in third party revenues is the company's share of the income of joint ventures, subsidiaries and investments accounted for on the equity basis. In 1979, $18 million of such income is included in the revenues of the housing and land development category and $23 million in the revenues of the financial services category, compared to 1978 amounts of $11 million in each category.

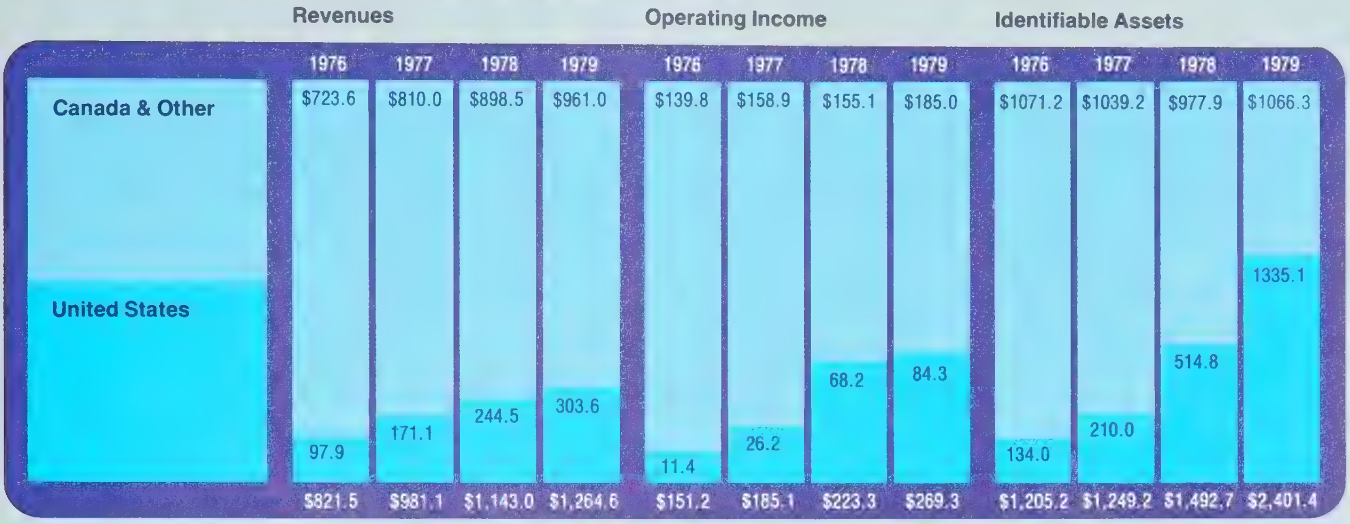
The Flintkote Company
The operating income and net assets of Flintkote are not included in results by industrial category on pages 32 and 33 because Flintkote became a subsidiary effective December 31, 1979. The investments category, however, includes on the equity method of accounting the investment cost and proportionate net income of Flintkote from the third quarter of 1978 to the end of 1979.

Interest and General Corporate Expenses
Interest expense is allocated in proportion to the average annual debt outstanding determined by applying representative total debt to equity ratios in each category. Unrealized foreign exchange translation gains and losses are included as general corporate costs and are allocated in proportion to net assets denominated in foreign currencies. Other general corporate expenses are allocated in proportion to the average net assets of each category.

Operating income of the categories is calculated before the deduction of these expenses and, accordingly, is greater than consolidated income before income taxes by $82 million in 1979 and $75 million in 1978.

Capital Expenditures by Industrial Category
(millions of dollars)

Financial Data by Geographic Area
(millions of dollars)



Net Assets
Net assets consist of the identifiable assets less non-interest bearing liabilities of each category. General corporate assets of $36 million in 1979 and $22 million in 1978 are allocated to each category. Net assets are financed by interest-bearing debt, deferred income taxes and shareholders' equity.

Return on Net Assets
Return on net assets is the performance measurement obtained by dividing net income before interest expense less applicable income taxes by net assets.

Identifiable Assets by Industrial Category
(millions of dollars)

RESULTS BY INDUSTRIAL CATEGORY

For the five years ended December 31, 1979
(millions of Canadian dollars)

Building Materials

Production of ready-mix concrete, concrete blocks, concrete pipe, sand, gravel, classified aggregates, lightweight aggregates, precast concrete structural and architectural components, precast concrete railway ties, and gypsum wallboard.

	REVENUES Third Party	Inter-Category	Total
1979	$273.6	$ 15.0	**$288.6**
1978	234.5	16.2	**250.7**
1977	220.6	18.9	**239.5**
1976	205.3	17.1	**222.4**
1975	177.9	14.4	**192.3**

Cement

Manufacture of normal portland cement, oil well cement, high early strength cement, masonry cement, sulphate-resistant cement and special potash cement.

	Third Party	Inter-Category	Total
1979	$138.2	$ 40.8	**$179.0**
1978	119.0	39.0	**158.0**
1977	97.0	36.6	**133.6**
1976	90.3	37.6	**127.9**
1975	80.5	30.9	**111.4**

Housing and Land Development

Construction of single-family, duplex and townhouse units; manufacture of pre-assembled sections and component packages for the construction of residential units; condominium conversions; development of residential, commercial and industrial land; shopping center development.

	Third Party	Inter-Category	Total
1979	$461.5	$ –	**$461.5**
1978	404.1	–	**404.1**
1977	372.7	.2	**372.9**
1976	245.9	.4	**246.3**
1975	156.3	–	**156.3**

Construction

Installation of municipal utility services, including water, sewer and lighting systems; street and road construction and paving; artificial lake construction; townsite development. Construction of hydroelectric dams, electrical power generating stations and transmission lines, highways, bridges, airports and major industrial plants; mine site development.

	Third Party	Inter-Category	Total
1979	$158.4	$ 46.8	**$205.2**
1978	142.8	27.4	**170.2**
1977	104.0	60.7	**164.7**
1976	121.3	31.2	**152.5**
1975	123.6	22.8	**146.4**

Marine

Tug and barge transportation; ferrying; berthing; lighterage; salvage; pollution control; shipbuilding and ship repairs; specialized ocean and river transportation. Marine transportation worldwide of heavy-lift and modular cargo.

	Third Party	Inter-Category	Total
1979	$112.1	$ 1.5	**$113.6**
1978	86.4	1.1	**87.5**
1977	68.6	.6	**69:2**
1976	62.0	.4	**62.4**
1975	61.3	.2	**61.5**

Financial Services

Mortgage banking; rental of electronic test and measurement equipment; real estate joint-venture financing; venture capital investment; thrift and loan operations; title insurance and escrow services; property and casualty insurance; marine financing.

	Third Party	Inter-Category	Total
1979	$ 30.3	$ –	**$ 30.3**
1978	60.7	–	**60.7**
1977	20.9	–	**20.9**
1976	16.3	–	**16.3**
1975	8.8	–	**8.8**

Investments

Manufacture of nitrogen-based chemicals and fertilizers; equity investment in The Flintkote Company; operation and sale of commercial and residential properties in 1976 through 1978; import and export of semi-finished metals and industrial minerals until early 1978.

	Third Party	Inter-Category	Total
1979	$ 90.5	$ –	**$ 90.5**
1978	95.5	–	**95.5**
1977	97.3	–	**97.3**
1976	80.4	–	**80.4**
1975	75.9	–	**75.9**

Cost of Sales	COSTS AND EXPENSES Selling, General and Administrative	Depreciation, Depletion and Amortization	Total	**Operating Income**	Interest and General Corporate Expenses	Income before Income Taxes	Provision for Income Taxes	**Net Income**	Net Assets	**Return on Net Assets (Percent)**
$221.4	$ 19.1	$ 11.9	$252.4	**$ 36.2**	$ 8.6	$ 27.6	$ 7.5	**$ 20.1**	$148.6	**15.2**
188.8	16.8	9.3	214.9	**35.8**	7.4	28.4	9.8	**18.6**	148.2	**14.4**
178.6	16.5	9.2	204.3	**35.2**	6.3	28.9	11.6	**17.3**	151.2	**13.0**
166.5	15.8	7.9	190.2	**32.2**	5.7	26.5	11.4	**15.1**	145.0	**12.1**
143.7	11.4	6.7	161.8	**30.5**	5.3	25.2	11.0	**14.2**	134.1	**12.2**
$130.4	$ 10.2	$ 7.1	$147.7	**$ 31.3**	$ 11.4	$ 19.9	$ 7.5	**$ 12.4**	$225.9	**6.9**
113.3	11.4	6.6	131.3	**26.7**	9.4	17.3	6.7	**10.6**	203.5	**6.9**
92.4	11.2	5.8	109.4	**24.2**	6.2	18.0	7.2	**10.8**	183.3	**7.2**
86.0	10.8	6.0	102.8	**25.1**	3.9	21.2	9.1	**12.1**	111.4	**12.3**
77.6	7.4	5.8	90.8	**20.6**	3.1	17.5	7.4	**10.1**	81.1	**13.9**
$293.7	$ 46.6	$ 1.7	$342.0	**$119.5**	$ 42.1	$ 77.4	$ 29.6	**$ 47.8**	$556.0	**11.5**
253.7	36.5	1.5	291.7	**112.4**	38.2	74.2	35.1	**39.1**	497.1	**11.2**
264.1	31.2	.9	296.2	**76.7**	31.6	45.1	22.6	**22.5**	434.1	**8.2**
162.9	21.0	1.0	184.9	**61.4**	21.7	39.7	20.3	**19.4**	390.6	**7.7**
107.1	19.1	.8	127.0	**29.3**	11.0	18.3	10.1	**8.2**	164.2	**8.2**
$177.8	$ 9.3	$ 7.6	$194.7	**$ 10.5**	$ 2.7	$ 7.8	$ 3.3	**$ 4.5**	$ 40.1	**13.5**
160.7	7.9	6.3	174.9	**(4.7)**	2.1	(6.8)	(3.4)	**(3.4)**	41.0	**(6.3)**
138.8	8.1	5.8	152.7	**12.0**	1.7	10.3	4.8	**5.5**	36.4	**16.8**
124.6	9.0	6.5	140.1	**12.4**	1.6	10.8	5.3	**5.5**	36.9	**16.8**
127.0	5.5	6.6	139.1	**7.3**	1.9	5.4	2.7	**2.7**	32.1	**10.9**
$ 75.7	$ 6.7	$ 7.1	$ 89.5	**$ 24.1**	$ 6.5	$ 17.6	$ 6.9	**$ 10.7**	$ 94.0	**13.8**
65.1	5.8	11.7	82.6	**4.9**	6.8	(1.9)	5.1	**(7.0)**	87.2	**(4.8)**
46.7	5.3	6.8	58.8	**10.4**	6.7	3.7	3.8	**(0.1)**	103.1	**2.4**
42.4	4.1	5.1	51.6	**10.8**	5.5	5.3	1.9	**3.4**	94.8	**6.3**
45.0	5.5	4.2	54.7	**6.8**	3.8	3.0	.2	**2.8**	76.7	**5.9**
$ 1.3	$ 3.4	$ .2	$ 4.9	**$ 25.4**	$ 4.9	$ 20.5	$ 4.5	**$ 16.0**	$189.5	**9.4**
15.6	7.9	.2	23.7	**37.0**	3.2	33.8	13.1	**20.7**	92.2	**23.5**
9.0	1.1	.2	10.3	**10.6**	1.6	9.0	3.2	**5.8**	32.5	**19.4**
7.4	1.8	.1	9.3	**7.0**	.9	6.1	2.1	**4.0**	30.1	**14.6**
5.3	.3	–	5.6	**3.2**	.8	2.4	.9	**1.5**	17.5	**10.3**
$ 59.9	$ 4.8	$ 3.5	$ 68.2	**$ 22.3**	$ 5.9	$ 16.4	$ 4.3	**$ 12.1**	$107.4	**13.1**
64.5	5.8	14.0	84.3	**11.2**	7.6	3.6	.6	**3.0**	138.3	**4.2**
65.3	10.4	5.6	81.3	**16.0**	10.0	6.0	3.4	**2.6**	123.6	**5.7**
62.0	10.7	5.4	78.1	**2.3**	9.1	(6.8)	(3.0)	**(3.8)**	225.5	**.1**
54.1	4.4	2.1	60.6	**15.3**	2.5	12.8	5.1	**7.7**	66.1	**13.2**

The following accounting policies conform with those generally accepted in both Canada and the United States.

Consolidation

Subsidiaries are consolidated either from the date of acquisition on the basis of purchase accounting or retroactively on the basis of pooling of interests accounting. Financial services subsidiaries are accounted for on the equity method because their financial structure and operations differ significantly from the company's other businesses.

Investments in joint ventures are accounted for on the equity method with the company's share of income included in revenues.

Foreign Exchange

Accounts in foreign currencies are translated into Canadian dollars. Monetary assets and liabilities, including long-term debt, are translated at the current rate and non-monetary assets and liabilities, including inventories, are translated at historical rates, with the resulting exchange gains or losses included in income.

Interest Costs

Interest costs related to housing and land development inventories and the construction of fixed assets are charged to income as incurred. Interest costs related to specific debt used to finance long-term development land are capitalized.

Inventories

Inventories are valued at the lower of cost or net realizable value. Cost of manufactured goods is determined principally at average and includes all overhead elements except depreciation. Cost of land and housing inventories is determined on a specific item basis and includes services such as roads, sewage and water systems on land under development.

Land inventories are those parcels which are expected to be sold within the five-year operating cycle of the land development business.

Development Land and Mortgages

Development land is stated at cost, including property taxes and interest on specific debt, and comprises land which is not expected to be sold within the five years subsequent to the balance sheet date.

Fixed Assets

Properties, plants and equipment are carried at cost. Expenditures for additions, improvements and renewals are capitalized and expenditures for maintenance and repairs are charged to income. When assets are sold or retired, their cost and accumulated depreciation or depletion are removed from the accounts and any gain or loss resulting from their disposal is included in income.

Depreciation of plants and equipment is provided by annual charges to income on the straight-line method based on estimated useful lives ranging from 20 to 40 years for plants and from 5 to 25 years for equipment. Mobile equipment depreciation is based on time utilization after allowing for estimated salvage value. Depletion of quarries and gravel deposits is calculated on the unit of extraction method.

Investments

Portfolio securities are valued at the lower of aggregate cost or net realizable value.

Revenue Recognition

Revenues from the sale of manufactured products and housing units are recognized upon passage of title to the customer which generally coincides with their delivery and acceptance. Revenues from the sale of land are recognized in the period in which the transactions occur provided the earnings process is complete and collectibility of the proceeds is reasonably assured. Revenues from the sale of revenue properties are recorded net of the related cost.

Revenues from construction and shipbuilding contracts are recognized on the percentage of completion method and any losses are provided for as they become known. Claims for additional contract compensation are not recognized until resolved.

CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 1979 and 1978
(thousands of Canadian dollars)

	NOTE REFERENCE	1979	1978
Revenues		**1,264,551**	1,143,042
Costs and Expenses			
Cost of sales and services		**856,109**	778,054
Selling, general and administrative	17	**116,955**	116,267
Depreciation, depletion and amortization	6	**39,079**	50,181
Interest on long-term debt		**34,217**	26,036
Other interest		**30,965**	23,896
		1,077,325	994,434
Income Before Income Taxes		**187,226**	148,608
Provision for income taxes	15		
Current		**43,000**	40,300
Deferred		**20,600**	26,700
		63,600	67,000
Net Income for the Year		**$ 123,626**	$ 81,608

		NOTE REFERENCE	1979	1978
Net Income per Common Share		16		
Canadian Method	Basic		**$ 4.21**	$ 3.02
	Fully diluted		**3.96**	2.87
United States Method	Primary		**4.16**	3.00
	Fully diluted		**3.98**	2.90

CONSOLIDATED BALANCE SHEETS

As at December 31, 1979 and 1978
(thousands of Canadian dollars)

	NOTE REFERENCE	1979	1978
Assets			
Current Assets			
Cash and term deposits		**65,926**	12,863
Accounts receivable		**408,659**	278,075
Net assets held for sale		**–**	22,277
Inventories	2	**625,633**	462,372
		1,100,218	775,587
Development Land and Mortgages	3	**115,557**	110,014
Investments	4	**244,562**	187,817
Fixed Assets	6		
Properties, plants and equipment		**1,447,510**	626,429
Accumulated depreciation and depletion		**544,755**	243,397
		902,755	383,032
Intangible Assets	7	**38,282**	36,250
		$2,401,374	$1,492,700

On behalf of the Board

Director Angus A. MacNaughton

Director

	NOTE REFERENCE	1979	1978
Liabilities			
Current Liabilities			
Short-term borrowings	8	**229,942**	169,738
Accounts payable	1	**324,369**	171,037
Income taxes	15	**73,701**	36,432
Advances relating to housing and land inventories	9	**127,465**	103,818
Current portion of long-term debt	10	**45,392**	25,976
		800,869	507,001
Long-Term Debt	10	**684,035**	236,545
Deferred Revenue	14	**90,938**	77,756
Deferred Income Taxes	15	**183,900**	115,300
		1,759,742	936,602
Capital Stock and Retained Earnings			
Preferred Shares	11	**8,631**	10,291
Series A Redeemable Preferred Shares	12	**120,000**	120,000
Common Shares and Contributed Surplus	11	**186,069**	180,196
Retained Earnings		**326,932**	245,611
		$2,401,374	$1,492,700

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31, 1979 and 1978
(thousands of Canadian dollars)

	NOTE REFERENCE	1979	1978
Source of Funds			
Net income for the year		**123,626**	81,608
Items not affecting funds			
Depreciation, depletion and amortization	6	**39,079**	50,181
Gain on sales of revenue properties and fixed assets		**(5,335)**	(10,279)
Deferred income taxes	15	**20,600**	26,700
Non-cash gain on sales of investments		**–**	(24,849)
Deferred revenue		**(10,901)**	(12,223)
Other		**(10,449)**	5,056
Funds from operations		**156,620**	116,194
Sale or reduction of			
Investments		**43,196**	30,098
Fixed assets		**20,219**	44,798
Development land and mortgages		**23,278**	76,641
Issue of			
Long-term debt		**395,498**	77,291
Capital stock		**4,213**	128,214
Formation of partnership		**–**	97,713
		643,024	570,949
Application of Funds			
Acquisition of subsidiary	1	**183,801**	–
Purchase of			
Investments	4	**158,462**	136,448
Fixed assets		**106,136**	52,832
Development land and mortgages		**24,966**	43,612
Payment or reduction of			
Long-term debt		**96,591**	156,026
Dividends		**42,305**	21,953
		612,261	410,871
Working Capital			
Increase for the year		**30,763**	160,078
At beginning of year		**268,586**	108,508
At end of year		**$ 299,349**	$ 268,586

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION
(Continued)

	NOTE REFERENCE	1979	1978
Changes in Elements of Working Capital	1		
Current assets *Increase (Decrease)*			
Cash and term deposits		**53,063**	(1,352)
Accounts receivable		**130,584**	39,759
Net assets held for sale		**(22,277)**	22,277
Inventories		**163,261**	132,228
		324,631	192,912
Current liabilities *Increase (Decrease)*			
Short-term borrowings		**60,204**	16,651
Accounts payable		**153,332**	17,230
Income taxes		**37,269**	5,241
Advances relating to housing and land inventories		**23,647**	12,634
Current portion of long-term debt		**19,416**	(18,922)
		293,868	32,834
Increase in working capital for the year		**$ 30,763**	$ 160,078

CONSOLIDATED STATEMENTS OF RETAINED EARNINGS
For the years ended December 31, 1979 and 1978
(thousands of Canadian dollars)

	1979	1978
Balance—beginning of year	**245,611**	185,956
Net income for the year	**123,626**	81,608
	369,237	267,564
Dividends—preferred shares	**8,338**	717
—common shares	**33,967**	21,236
	42,305	21,953
Balance—end of year	**$ 326,932**	$ 245,611

1. Business Combination

The assets and liabilities of The Flintkote Company (Flintkote), a company engaged in the manufacture and sale of building materials, lime and cement in the United States, have been consolidated on the basis of purchase accounting assuming 100 percent ownership on December 31, 1979. At that date, the company owned approximately 94 percent of Flintkote issued shares which were acquired by open market purchases in 1978 and by a cash tender offer in the fourth quarter of 1979. Included in accounts payable is the cost of all of the remaining Flintkote shares which were acquired by February 8, 1980.

Details of the acquisition are as follows:
(thousands of dollars)

Net assets acquired	
Net tangible assets at the book value of Flintkote	349,045
Intangible assets at the book value of Flintkote	5,962
Allocation of purchase price primarily to fixed assets and long-term debt	97,710
Allocation of purchase price to intangible assets	(5,962)
	$446,755
Consideration	
Equity value of original investment purchased in 1978	70,045
Cash tender offer in 1979	348,610
Minority interest acquired in 1980	28,100
	$446,755

Assuming the purchase had taken place on January 1, 1978, at the same excess of cost over net tangible assets and financed by bank borrowings at an average cost of 10% in 1978 and 13% in 1979, the theoretical pro-forma consolidated results of Genstar would have been as follows:

	1979	1978
	(thousands of dollars)	
Revenues	2,265,300	1,977,600
Income before unrealized foreign exchange	126,100	92,400
Unrealized foreign exchange translation gain (loss)	12,300	(7,600)
Net income for the year	$138,400	$ 84,800
Net income per common share		
Canadian method – basic	$ 4.75	$ 3.14
– fully diluted	4.47	2.98
United States method – primary	4.69	3.12
– fully diluted	4.49	3.01

The consolidation of Flintkote resulted in the following changes in financial position:
(thousands of dollars)

Changes in net long-term assets	
Purchase of –	
Investments and loans	14,812
Fixed assets	460,027
	474,839
Assumption of –	
Long-term debt	146,821
Deferred income taxes	47,327
Deferred income	26,845
	220,993
Net long-term assets purchased	253,846
Equity value of original investment	70,045
Decrease in working capital	$183,801

Increases in elements of working capital	
Current assets	
Cash and term deposits	53,613
Accounts receivable	152,307
Inventories	116,439
	322,359
Current liabilities	
Accounts payable	110,887
Income taxes	7,420
Current portion of long-term debt	11,143
	129,450
Working capital purchased	192,909
Net long-term assets purchased	253,846
Cost of acquisition	$446,755

2. Inventories

	1979	1978
	(thousands of dollars)	
Finished goods	123,221	39,714
Work in process	130,380	107,982
Raw materials and supplies	65,270	29,384
Land	287,872	274,219
Maintenance and repair parts	18,890	11,073
	$625,633	$462,372

Land inventories include raw land of $156,448,000 at December 31, 1979 and $189,796,000 at December 31, 1978.

3. Development Land and Mortgages

	1979	1978
	(thousands of dollars)	
Development land	73,669	76,219
Mortgages and loans receivable	41,888	33,795
	$115,557	$110,014

4. Investments

	1979	1978
	(thousands of dollars)	
Portfolio securities – at cost	**69,706**	50,087
Non-consolidated financial services subsidiaries – at equity (Note 5)	**112,420**	21,250
Joint ventures – at equity (Note 5)	**49,655**	45,406
Investment in The Flintkote Company – at equity (Note 1)	**–**	61,935
Advances to stock purchase plans	**12,781**	9,139
	$244,562	$187,817

Portfolio securities include marketable investments of $39,581,000 at December 31, 1979 and $33,040,000 at December 31, 1978 with market values of $63,000,000 and $48,000,000, respectively.

During 1979, the company acquired for cash all of the outstanding shares and long-term debt of Westmor Corporation in full at a cost of $59,500,000, which exceeded the net book value of underlying net tangible assets by $8,700,000. Including this acquisition, the equity value of financial services subsidiaries exceeds the underlying book value of net tangible assets by approximately $24,000,000. This amount relates to the excess of investment cost over book value of net tangible assets at the date of acquisition and is being charged against income over periods of up to forty years.

5. Non-Consolidated Subsidiaries and Joint Ventures

The company has several non-consolidated financial services subsidiaries and is a partner in a number of incorporated and unincorporated joint ventures which are engaged in land and housing, construction, mixed fertilizer and financial services activities.

The following is a summary of the net assets and operations of these investments:

Non-Consolidated Financial Services Subsidiaries	1979	1978
	(thousands of dollars)	
Net assets employed		
Cash and accounts receivable	**91,019**	18,341
Bank advances, accounts payable and other current liabilities	**62,586**	21,173
Working capital	**28,433**	(2,832)
Mortgages, fixed assets, investments and intangibles	**91,247**	22,838
	$119,680	$ 20,006
Financed by		
Long-term debt and deferred income taxes	**11,668**	10,521
Advances by the company	**35,214**	–
Shareholders' equity	**72,798**	9,485
	$119,680	$ 20,006
Operations		
Revenues	**52,986**	1,716
Expenses	**46,569**	1,606
Net income for the year	**$ 6,417**	$ 110

Joint Ventures	1979	1978
	(thousands of dollars)	
Net assets employed		
Accounts receivable and inventories	**395,177**	305,149
Bank and mortgage advances and accounts payable	**286,905**	198,221
Working capital	**108,272**	106,928
Development land and properties and fixed assets	**146,389**	166,533
	$254,661	$273,461
Financed by		
Mortgages on development land and properties	**135,931**	161,262
Equity and advances by other partners	**51,710**	44,531
Equity and advances by the company	**67,020**	67,668
	$254,661	$273,461
Operations		
Revenues	**335,669**	209,792
Expenses	**269,658**	168,312
Income before income taxes	**$ 66,011**	$ 41,480
Allocation of income		
Other partners	**28,207**	18,149
Company	**37,804**	23,331
	$ 66,011	$ 41,480

As a general partner in certain unincorporated ventures, the company is contingently liable at December 31, 1979 for the other partners' share of liabilities of $67,000,000 and, as a limited partner in other ventures, is guarantor of partnership liabilities of $53,000,000.

In addition, the company has agreed to purchase land from a partnership in sufficient quantities to enable the partnership to meet its principal and interest requirements on certain loans if the partnership is unable to do so from its own resources. At December 31, 1979, these loans bearing interest at 9.75% amounted to $109,000,000 (including U.S. $90,000,000), mature to 1993 and require the following payments of principal over the next five years:
1980-$596,000; 1981-$595,000; 1982-$541,000; 1983-$5,578,000; 1984-$10,645,000.

In general, liabilities of joint ventures are secured by pledges of the related assets and at December 31, 1979, assets exceeded liabilities in joint ventures.

6. Fixed Assets

	1979		1978	
	Cost	Accumulated Depreciation and Depletion	Cost	Accumulated Depreciation and Depletion
	(thousands of dollars)			
Plant sites	**39,170**	**–**	16,176	–
Quarries and gravel deposits	**60,990**	**10,170**	15,261	3,286
Buildings	**242,795**	**93,032**	93,669	43,637
Machinery and equipment	**1,104,555**	**441,553**	501,323	196,474
	$1,447,510	**$544,755**	$626,429	$243,397

Plant sites, buildings and machinery and equipment include capital leases in the amount of $103,000,000. Included in 1978 depreciation expense is an amount of $13,000,000 reflecting the reduced utility of certain assets of the chemical and international marine divisions.

7. Intangible Assets

	1979	1978
	(thousands of dollars)	
Intangible assets arising from acquisitions	**34,596**	34,386
Debt discount	**3,686**	1,864
	$38,282	$36,250

The cost of intangible assets arising from acquisitions subsequent to November 1, 1970 amounted to $3,272,000 and accumulated amortization thereon, $605,000 at December 31, 1979. Unamortized intangible assets are charged to income in the event of diminution in value.

8. Short-Term Borrowings

	1979	1978
	(thousands of dollars)	
Bank advances	**224,026**	126,574
Short-term promissory notes	**5,916**	43,164
	$229,942	$169,738

Bank advances include $139,000,000 of borrowings under the U.S. $350,000,000 term loan facility used for the acquisition of Flintkote. At December 31, 1979, bank lines of credit including those of non-consolidated financial services subsidiaries amounted to $490,000,000, including $75,000,000 maintained for the issue of short-term promissory notes authorized in the same amount. Commitment fees on the bank lines are not material. Average short-term borrowings outstanding amounted to $190,700,000 during 1979 and $176,000,000 during 1978 and the maximum outstanding at any month-end was $247,300,000 in 1979 and $227,500,000 in 1978. Short-term borrowings bear interest at rates which approximate prime lending rates. In addition, at December 31, 1979, Flintkote bank lines of credit amounted to $78,000,000 of which no significant portion was used during the year.

9. Advances Relating to Housing and Land Inventories

Included in advances relating to housing and land inventories is $59,742,000 at December 31, 1979 and $41,797,000 at December 31, 1978 representing the outstanding balances of the purchase price of development lands which are payable over periods up to five years.

The remaining advances of $67,723,000 at December 31, 1979 and $62,021,000 at December 31, 1978 represent financing on residential houses included in work in process and finished goods inventories, which will be repaid upon sale.

10. Long-Term Debt

	1979 Current Portion	1979 Total	1978 Current Portion	1978 Total
	(thousands of dollars)			
Debentures				
$10^1/_4$% due in 1980	**20,000**	**20,000**	–	20,000
11% sinking fund due in 1981 (U.S. $7,541)	–	**8,898**	–	–
10% due to 1981 (U.S. $23,765)	**1,180**	**28,043**	1,200	30,000
$6^1/_2$% convertible due in 1988 (U.S. $14,400)	–	**16,992**	–	17,280
10% due to 1989 (U.S. $48,850)	**2,360**	**57,643**	–	–
$11^3/_4$% due to 1995	**1,500**	**22,452**	1,500	25,452
11% sinking fund due to 1996 (U.S. $30,965)	**1,906**	**36,539**	–	–
$11^1/_4$% due to 1996	**2,500**	**50,000**	2,500	50,000
$10^3/_4$% due to 1999	–	**50,000**	–	–
Mortgages				
$5^7/_8$% to 8% first mortgage sinking fund bonds due to 1988	**1,380**	**4,564**	1,550	15,906
6% to $10^1/_2$% mortgages on development land due to 2009	**1,943**	**20,096**	2,753	21,189
Term bank loans				
Prime plus $^1/_2$% due in 1981 (U.S. $176,000)	–	**208,000**	–	–
11% due to 1984 (U.S. $18,500)	–	**21,830**	–	–
$11^{13}/_{16}$% due to 1987 (U.S. $60,000)	–	**70,800**	–	–
Prime plus $1^1/_4$% due to 1989	–	**6,516**	–	6,516
Prime plus $^3/_4$% due to 1984	–	–	7,069	57,246
Non-interest bearing to 16% notes, mortgages and debentures due to 1998 (including U.S. $19,103)	**5,004**	**28,594**	8,840	15,395
Capital lease obligations				
$5^1/_2$% to $6^1/_4$% revenue bonds due to 1999 (U.S. $28,250)	–	**33,335**	–	–
4% to 15% building and equipment leases due to 1996 (including U.S. $35,022)	**7,619**	**45,125**	564	3,537
	45,392	**729,427**	25,976	262,521
Current portion	–	**45,392**	–	25,976
Long-term debt	**$45,392**	**$684,035**	$25,976	$236,545

All debentures except the $6^1/_2$% convertible debentures due in 1988 are secured by a floating charge on the assets of the company.

Trust indentures pertaining to the debentures contain restrictive covenants covering the issuance of additional long-term debt and the payment of dividends.

First mortgage bonds in the amount of $9,500,000 were called for redemption during the fourth quarter of 1979.

Included in term bank loans is a U.S. $60,000,000 facility with interest based on the London Inter-Bank Offered Rate plus $^1/_4$% to $^3/_4$% dependent on the term selected. Under the terms of this loan, the company may repay all or any part without penalty and redraw up to the maximum. At December 31, 1979, U.S. $30,000,000 of short-term borrowings have been classified as term bank loans pursuant to this facility.

Capitalized leases include municipal revenue bonds on lease-option facilities of a subsidiary which require lease payments equal to bond servicing and redemption requirements.

At December 31, 1979, sinking fund debentures in the principal amount of $49,800,000 and term bank loans in the principal amount of $23,600,000, assumed on the acquisition of Flintkote, have been consolidated after deducting $7,300,000 of interest imputed at a rate of 11%.

The following payments are required in the next five years for long-term debt installment, sinking fund and purchase fund provisions and capital lease obligations:

	Long-term Debt	
	Debt	Capital Leases
	(thousands of dollars)	
1980	$ 37,773	$ 13,558
1981	271,725	12,741
1982	49,965	11,046
1983	32,919	9,966
1984	51,043	9,835
Subsequent years' lease payments		63,568
Total lease payments		120,714
Imputed interest		42,254
Present value of minimum lease payments		$78,460

11. Capital Stock and Contributed Surplus

All data reflects the two-for-one common share split in 1979.

Authorized

5,000,000 preferred shares – without nominal or par value issuable in series of which 457,978 are designated as Series A $1.10 cumulative convertible; 1,205,970 are designated as Series B $1.20 non-cumulative convertible; and 1,726,476 are designated as Series D $1.50 cumulative convertible, all of which carry voting rights and are redeemable from $22 to $24 each subject to various conditions.

20,000,000 second preferred shares – without nominal or par value issuable in series of which 1,000,000 are designated as Series A redeemable cumulative non-voting and non-convertible of the stated value of U.S. $100 each; 439,181 are designated as Series B redeemable cumulative voting and convertible of the stated value of $24.40 each; and 525,700 are designated as Series SP-79 non-cumulative voting convertible of the stated value of U.S. $5.25 each.

Common shares – an unlimited number without nominal or par value.

Issued and Fully Paid

	1979		1978	
	Shares	Amount	Shares	Amount
	(thousands)			
Preferred shares – Series A	**2**	**50**	7	143
– Series B	**229**	**4,581**	294	5,884
– Series D	**39**	**778**	213	4,264
Second preferred shares – Series SP-79 (U.S. $2,754)	**525**	**3,222**	—	—
	795	**$ 8,631**	514	$ 10,291
Series A second preferred shares (U.S. $100,000)	**1,000**	**$120,000**	1,000	$120,000
Common shares	**27,380**	**177,869**	26,832	172,027
Contributed surplus	—	**8,200**	—	8,169
	27,380	**$186,069**	26,832	$180,196

Common shares are shown after deducting 1,612,302 shares at their issue price of $7.50 per share, which were received as a result of previous shareholdings in companies acquired.

The details of the changes in shares issued during the year are as follows:

	1979	1978
	(thousands of shares)	
Preferred		
Beginning of year	**514**	656
Issued in the year –		
Series SP-79 at U.S. $5.25	**525**	–
At $22.50 in exchange for shares, options and warrants of an amalgamated subsidiary	**13**	98
	1,052	754
Converted to common shares	**(257)**	(240)
End of year	**795**	514
Series A second preferred	**–**	1,000
Common		
Beginning of year	**26,832**	25,754
Issued in the year –		
At $10.00 on the conversion of preferred shares	**513**	480
At $4.89 to $23.60 under the stock purchase plan and on the exercise of options and warrants	**35**	598
End of year	**27,380**	26,832

The following shares are reserved for issuance:

Preferred

146,000 Series D pursuant to the conversion of options and warrants granted by an amalgamated subsidiary.

Series B Second Preferred

439,181 Series B second preferred shares. In January 1980, these shares were issued at $24.40 each in exchange for all outstanding shares of U.S. Rubber Reclaiming Co., Inc. These shares bear a cumulative annual dividend of U.S. $1.68, are redeemable at U.S. $25.00 and are each convertible into nine-tenths of a Genstar common share.

	1979	1978
	(thousands of shares)	
Common		
At $10.00 for the conversion of preferred shares	**833**	1,342
At $4.89 to $21.37 for the exercise of options	**104**	96
At U.S. $16.00 for the conversion of debentures	**900**	900
At U.S. $17.67 for the conversion of Series SP-79 second preferred shares	**156**	–
At $24.40 for the conversion of Series B second preferred shares	**395**	–
	2,388	2,338

Stock Option Plan

Options have been granted whereby common shares may be purchased by employees at a price equal to 90% of market on the granting date. At both December 31, 1979 and 1978 options, at prices from $4.89 to $21.37, for approximately 100,000 common shares were held by employees, the majority of whom were also officers or directors.

1969 Stock Purchase Plan
Under the terms of the 1969 Stock Purchase Plan, trustees have purchased, at approximately 99% of market, and hold 449,500 common shares for the benefit of employees who are directors or officers and 210,950 common shares for the benefit of other employees.

The participants pay for the common shares over a period of seven years together with interest calculated at 5% per annum. The shares are held as security by the trustees until full payment has been received.

1979 Stock Purchase Plan
Under the terms of the 1979 Stock Purchase Plan trustees hold 524,500 Series SP-79 second preferred shares of which 491,100 are for the benefit of employees who are directors or officers and 33,400 for the benefit of other employees.

The participants pay for the shares over a period of ten years together with interest currently set at 6% per annum. The shares are held as security by the trustees until full payment has been received.

12. Series A Redeemable Second Preferred Shares

1,000,000 Series A second preferred shares were issued at U.S. $100 each in 1978 and bear cumulative variable-rate dividends based primarily on the London Inter-Bank Offered Rate. As at December 31, 1979 and 1978, the dividend rates were 9.15% and 6.53% respectively. These shares are redeemable at U.S. $103 and U.S. $102 during the years ended October 31, 1980 and 1981, respectively, and at par value thereafter. At the option of the holder, the company will repurchase, at par, a maximum of 330,000 shares on each of November 1, 1986 and 1987 and any balance outstanding on November 1, 1988.

13. Series C Redeemable Second Preferred Shares

In February 1980, the company issued to the public in Canada 3,000,000 Series C second preferred shares at $31.50 each bearing a cumulative annual dividend of $2.35 each. Each share is convertible into one common share until June 30, 1990, after which the company will make all reasonable efforts to purchase 1% of the shares then outstanding per quarter. The net proceeds of the issue of approximately $91,000,000 were applied to reduce bank borrowings incurred pursuant to the acquisition of Flintkote and for other corporate purposes.

Assuming that these shares had been issued on January 1, 1979 and the proceeds used to reduce bank borrowings having an average cost of 13%, the pro-forma effect on net income per share would have been as follows:

		Year ended December 31, 1979	
		Actual	Pro-forma
Net income per common share			
Canadian method	– basic	$ **4.21**	$ 4.19
	– fully diluted	**3.96**	3.79
United States method	– primary	**4.16**	3.96
	– fully diluted	**3.98**	3.81

14. Deferred Revenue

Deferred revenue results from the contribution of land to a partnership and the sale of the future production of limestone deposits. Income is recognized as sales are made to third parties.

15. Income Taxes

The components of the provision for income taxes are as follows:

	1979	1978
	(thousands of dollars)	
Current		
Canadian – Federal	**26,500**	18,800
– Provincial	**8,500**	8,800
United States and other	**8,000**	12,700
	$ 43,000	$ 40,300
Deferred		
Canadian – Federal	**13,700**	14,300
– Provincial	**5,500**	4,900
United States and other	**1,400**	7,500
	$ 20,600	$ 26,700

The sources of long-term differences between income for financial statement and for income tax purposes are as follows:

	1979	1978
	(thousands of dollars)	
Excess depreciation for tax purposes	**13,700**	19,300
Investment gains unrealized for tax purposes	**300**	5,900
Portion of land income deferred for tax purposes	**4,700**	–
Other	**1,900**	1,500
	$ 20,600	$ 26,700

A reconciliation of the company's effective income tax rates is as follows:

	1979	1978
Canadian and United States federal income tax rates	**46.0%**	46.0%
Canadian tax incentives for manufacturing and processing	**(3.2)**	(3.0)
Provincial income taxes, net of federal abatement	**2.9**	4.1
Reduced rate on capital gains and other income	**(1.4)**	(5.5)
Inter-unit interest income taxed at reduced rates	**(8.1)**	(2.5)
Non-taxable foreign losses (income) and equity net income	**(2.5)**	3.4
Foreign exchange losses (gains)	**(1.4)**	1.1
Other	**1.7**	1.5
Effective income tax rates	**34.0%**	45.1%

No significant decrease in deferred income taxes payable is anticipated within the next three years. Provisions have not been made for income taxes on undistributed income of foreign subsidiaries as such income is being reinvested in foreign operations.

As at December 31, 1979, this undistributed income amounted to $125,000,000 which, if repatriated, would result in a 5% withholding tax on approximately one-half of the income and 46% income tax on the balance.

16. Net Income per Common Share

The weighted average number of shares used in calculating net income per common share is as follows:

	Canadian		United States	
	1979	1978	**1979**	1978
	(thousands of shares)			
Basic and Primary				
Weighted average common shares	**27,274**	26,376	**27,274**	26,376
Shares pertaining to stock options, warrants, convertible preferred shares and debt	**–**	–	**356**	120
	27,274	26,376	**27,630**	26,496
Fully diluted				
Weighted average common shares	**27,274**	26,376	**27,274**	26,376
Shares pertaining to				
– conversion of debt	**900**	76	**900**	76
– conversion of preferred shares	**685**	1,114	**679**	1,114
– options and warrants	**412**	524	**203**	168
	29,271	28,090	**29,056**	27,734

Share amounts reflect the two-for-one common share split in 1979.

Basic and primary income per common share have been calculated after reducing net income by $393,000 in 1979 and $717,000 in 1978, being the dividends on Series A, B, and D preferred shares, and $8,469,000 in 1979 and $1,313,000 in 1978 on Series A second preferred shares.

Net income used in determining fully diluted income per common share has been increased by $468,000 in 1979 and $39,000 in 1978 being the after tax effect of interest on debt assumed to be converted. Net income was further increased for purposes of calculating Canadian fully diluted income per common share by $332,000 in 1979 and $244,000 in 1978 to give effect to an imputed return of five percent on funds which would have been available on the exercise of options and warrants.

17. Additional Information

Retirement Plans
Retirement plans exist under which employees are eligible to participate after varying years of employment and are eligible for benefits at varying ages. Contributions to plans for salaried and hourly employees charged to income were $4,000,000 in 1979 and $3,000,000 in 1978, including prior service costs. During the periods, Flintkote charged $8,200,000 and $6,400,000 to income and contributed $2,600,000 and $1,900,000 to various joint industry and union administered pension plans. An unfunded liability of approximately $5,000,000 at December 31, 1979 is being funded and charged to income over periods up to fifteen years. In addition, an unfunded prior service liability of approximately $25,000,000 existed at December 31, 1979, in Flintkote plans and is being funded in accordance with the provisions of the Employee Retirement Income Security Act of 1974 or other applicable law.

Reclassification of Comparative Figures
Certain 1978 amounts have been reclassified to conform with 1979 presentation.

Capitalized Interest Costs
Interest costs on specific debt associated with the holding and development of long-term land are capitalized in order to achieve a better matching of costs and revenues. Had these interest costs been expensed as incurred, net income for 1979 and 1978 would have been reduced by approximately $1,300,000 and $900,000 respectively.

Commitments and Contingent Liabilities
Outstanding commitments relating to the construction of plants and the purchase of equipment amount to approximately $12,000,000 at December 31, 1979. In addition, the cost to complete major capital projects in process is approximately $110,000,000.

Foreign Exchange
Included in selling, general and administrative expenses is an unrealized foreign exchange translation gain of $7,500,000 in 1979 and a loss of $3,400,000 in 1978.

Litigation

The company and its subsidiaries are parties to routine claims and suits brought against them in the ordinary course of business. In the opinion of management, all such matters are adequately covered by insurance or, if not so covered, the results are not expected to materially affect the company's financial position.

A subsidiary and certain other manufacturers and sellers of polyurethane foam are parties defendant in civil suits pending in United States federal and state courts in Arizona, and is one of several defendants in a case pending in state court in California, brought by plaintiffs to recover for property damage allegedly caused by polyurethane foam installations. Based upon the investigation made to date of the facts and legal issues involved, it is the opinion of the counsel engaged to represent the subsidiary that the subsidiary has meritorious defenses to them. Depending upon various circumstances, some or all of the damages, if any are ultimately awarded, would be covered by insurance.

The subsidiary has also been named as defendant, along with numerous other defendants, in a number of actions commenced in United States federal courts in various states by plaintiffs purporting to represent various groups alleging that the Portland Cement Association and its members have violated the anti-trust laws by engaging in a conspiracy to fix, stabilize and maintain the price of cement. No specific amount of money damages is claimed. These actions, most of which have been remanded to the District of Arizona, are only in a preliminary stage. Management denies the allegations. Based upon investigation of the allegations to date counsel engaged to represent the subsidiary in these actions believes that the position of management is sound and counsel is of the opinion that the subsidiary has meritorious defenses to the claims. The subsidiary intends to defend the actions vigorously.

18. Replacement Cost Information

The impact of the rate of inflation experienced in recent years has resulted in replacement costs of inventories and productive capacity that are significantly greater than the historical costs of such assets reported in the company's financial statements. Concurrently, technological improvements and design changes have generally increased the productivity of asset additions.

The company's annual report on Form 10-K as required by the Securities and Exchange Commission, which is available upon request, contains information with respect to the December 31, 1979 and 1978 replacement cost of inventories, development land and fixed assets, together with the approximate effect which replacement cost would have on cost of sales and services and depreciation expense for the years then ended.

19. Summarized Quarterly Financial Data (Unaudited)

Summarized quarterly financial data is as follows:

	Three Months Ended March 31	Three Months Ended June 30	Three Months Ended September 30	Three Months Ended December 31	Year Ended December 31
	(thousands of dollars)				
1979–					
Revenues	$ 231,923	$ 287,385	$ 381,370	$ 363,873	$1,264,551
Gross profit	76,145	91,927	113,698	126,672	408,442
Net income	16,186	28,163	35,324	43,953	123,626
Net income per common share					
–Basic	$ 0.52	$ 0.96	$ 1.22	$ 1.51	$ 4.21
–Primary	0.52	0.95	1.21	1.48	4.16
Market price (The Toronto Stock Exchange)					
–High	$ 20.87	$ 24.63	$ 27.75	$ 26.87	$ 27.75
–Low	18.38	19.82	22.25	20.37	18.38
Trading volume	1,825,760	1,879,360	1,483,507	1,636,676	6,825,303

	Three Months Ended March 31	Three Months Ended June 30	Three Months Ended September 30	Three Months Ended December 31	Year Ended December 31
	(thousands of dollars)				
1978–					
Revenues	$ 184,987	$ 280,007	$ 310,727	$ 367,321	$1,143,042
Gross profit	61,689	79,628	96,101	127,570	364,988
Net income	9,469	19,865	22,415	29,859	81,608
Net income per common share					
–Basic	$ 0.36	$ 0.75	$ 0.84	$ 1.07	$ 3.02
–Primary	0.36	0.75	0.83	1.06	3.00
Market price (The Toronto Stock Exchange)					
–High	$ 14.00	$ 15.44	$ 16.82	$ 19.00	$ 19.00
–Low	12.82	13.00	14.50	16.25	12.82
Trading volume	1,080,850	1,396,682	1,398,506	1,927,496	5,803,534

COOPERS & LYBRAND
CHARTERED ACCOUNTANTS

We have examined the consolidated financial statements including the results by industrial category of GENSTAR LIMITED and subsidiaries as at December 31, 1979 and 1978 as set forth on pages 30 through 52 of this report. We have also examined the results by industrial category for the years from 1975 to 1977 included on pages 30 to 33. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of GENSTAR LIMITED and subsidiaries as at December 31, 1979 and 1978 and the results of their operations and the changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis. Also, in our opinion, the results by industrial category referred to above are presented fairly in conformity with generally accepted accounting principles applied on a consistent basis.

Coopers & Lybrand

Chartered Accountants

Montreal, Canada
February 25, 1980

DIVISIONS AND SUBSIDIARIES

BUILDING MATERIALS

Genstar Materials Limited
Vancouver, British Columbia

N. D. MacRitchie
President

Ocean Construction Supplies Limited
Vancouver, British Columbia

J. T. Arnold
President

Consolidated Concrete Limited
Edmonton, Alberta
Calgary, Alberta

K. G. Evans
President

R. C. Kruger
Vice President (Southern Region)

H. E. Sim
General Manager (Northern Region)

Redi-Mix Limited
Regina, Saskatchewan

H. F. Ward
President

Building Products and Concrete Supply
Winnipeg, Manitoba

R. D. Rosenblat
President

Con-Force Products Limited
Calgary, Alberta

A. W. Falk
President

Con-Force Costain Concrete Tie Company Limited
Edmonton, Alberta

J. G. White
Vice President and
General Manager

Genstar Conservation Systems Inc.
San Francisco, California

J. L. Crawley
Executive Vice President

Gas Recovery Systems Inc.
Pasadena, California

R. T. Mandeville
President

U.S. Rubber Reclaiming Company, Inc.
Vicksburg, Mississippi

B. R. Wendrow
President

Rubber Recycling Division
Phoenix, Arizona

F. G. Smith
President

Truroc Gypsum Products Limited
Edmonton, Alberta

G. R. Thompson
President

HOUSING AND LAND DEVELOPMENT

Genstar Development Company
Surrey, British Columbia

V. S. G. Lewis
President

Genstar Eastern Development Company
Toronto, Ontario

M. H. Rogers
President

Genstar Western Development Company
Calgary, Alberta

L. Cosman
President

Genstar Properties Limited
Calgary, Alberta

C. D. Wilson
President

Engineered Homes Limited
Calgary, Alberta

G. L. Magnussen
President

Keith Construction Company Limited
Calgary, Alberta

L. H. Frodsham
President

Genstar Housing Components Limited
Calgary, Alberta

L. Luini
President

Genstar Commercial Development Company
Toronto, Ontario

C. D. Smith
President

Genstar Commercial Development (Western) Company
Calgary, Alberta

J. E. Whitaker
President

Genstar Properties
La Jolla, California

F. D. Dembinsky
President

Penasquitos Properties
San Diego, California

N. D. Gascon
President

Genstar Southern Development Corporation
Miami, Florida

M. B. McAfee
President

Genstar Development, Inc.
Cascade Division
Vancouver, Washington

G. D. Carlson
General Manager

Genstar Texas Development Company
Houston, Texas

J. E. Carr, III
General Manager

Broadmoor Development Company
Laguna Hills, California

L. R. Lizotte
President

Broadmoor Homes
Irvine, California

B. Smith, Jr.
President

Broadmoor Homes Northern
Dublin, California

R. B. Menard
President

Genstar Homes of Texas, Inc.
Houston, Texas

J. Thompson
Executive Vice President

Sutter Hill Limited
Palo Alto, California

M. D. Couch
President

CEMENT

Inland Cement Industries Limited
Edmonton, Alberta
Vancouver, British Columbia
Regina, Saskatchewan
Winnipeg, Manitoba

R. D. MacLean
President

CONSTRUCTION

Genstar Construction Services Limited
Edmonton, Alberta

B. Amos
Executive Vice President

B-A Construction Limited
Winnipeg, Manitoba

W.D. Kufflick
Vice President

Standard General Construction Limited
Calgary, Alberta
Edmonton, Alberta
Vancouver, British Columbia

A. J. Flood
W. E. Gardiner
Vice Presidents

Genstar Construction Limited
Engineering & Industrial Division
Winnipeg, Manitoba

D. S. Duncan
President

B.A.C.M. Construction Company Limited
Winnipeg, Manitoba

H. B. McLenaghan
President

Genstar Construction, Inc.
Bellevue, Washington

J. W. Taylor
Vice President

Construction Romir Inc.
Laval, Quebec

B. N. Baranyai
President

Genstar Construction Limited
International Division
Toronto, Ontario

W. M. Bateman
President

Genstar Projects (Middle East) Limited
Hamilton, Bermuda
Toronto, Ontario

J. E. Searle
Senior Vice President

MARINE

Genstar Marine Limited
North Vancouver, British Columbia

J. S. Byrn
President

Seaspan International Limited
North Vancouver, British Columbia

A. M. Fowlis
President

Vancouver Shipyards Company Limited
North Vancouver, British Columbia

W. R. Monkman
President

McAllister Towing & Salvage Limited
Montreal, Quebec

D. G. McAllister
President

FINANCIAL SERVICES

Sutter Hill Ventures
Palo Alto, California

W. H. Draper III
P. M. Wythes
D. L. Anderson
G. L. Baker, Jr.
General Partners

Genstar Pacific Investments
San Francisco, California

D. R. Blanchard
President

First American Title Guaranty Company
Oakland, California

W. B. Morrish
President

Atlas Thrift Company
San Jose, California

H. R. Carlson
Chairman

Atlas Thrift of Nevada
Reno, Nevada

C. R. Maraden
President

Rental Electronics, Inc.
Palo Alto, California

W. D. Rollnick
President

Western Mortgage Corporation
Los Angeles, California

E. H. Plaga
President

INVESTMENTS

Genstar Chemical Limited
Montreal, Quebec

R. A. Parkes
President

Energy Sciences & Consultants, Inc.
Biwabik, Minnesota

C. H. Grant
President

Nutrite Inc.
Montreal, Quebec

J. Bellisle
Vice President and General Manager

FLINTKOTE

The Flintkote Company
Stamford, Connecticut

J. D. Moran
Chairman and Chief Executive Officer

M. C. Carpenter
President and Chief Operating Officer

Flintkote Cement Company
Stamford, Connecticut

Calaveras Cement Division
San Francisco, California

Glens Falls Cement Division
Glens Falls, New York

Kosmos Cement Division
Louisville, Kentucky

J. J. Graham
President

Building Materials Manufacturing Division
Irving, Texas

J. C. Harkness
Vice President and General Manager

Building Materials Marketing Division
Irving, Texas

R. L. Murray
Vice President and General Manager

Flintkote Supply Company
Irving, Texas

J. M. Shedden
Vice President and General Manager

Flooring Division
Irving, Texas

J. C. Murphy
Vice President and General Manager

Flintkote Lime Products Company
Monterey Park, California

J. C. MacDonald
Vice President and General Manager

Flintkote Stone Products Company
Hunt Valley, Maryland

J. A. West
President

The Flintkote Company of Canada Limited
Etobicoke, Ontario

G. C. Edwards
Executive Vice President and General Manager

King Paving and Materials Division
Oakville, Ontario

M. D. Boyd
Executive Vice President and General Manager

CORPORATE INFORMATION

Counsel: Ogilvy, Montgomery, Renault, Clarke, Kirkpatrick, Hannon & Howard, Montreal, Canada

Shearman & Sterling, New York, U.S.A.

Auditors: Coopers & Lybrand, Montreal, Canada

Transfer Agents: Montreal Trust Company, Halifax, Saint John, Montreal, Toronto, Winnipeg, Edmonton, Calgary and Vancouver, Canada

Morgan Guaranty Trust Company of New York, New York, U.S.A.

Registrars: The Royal Trust Company, Saint John, Montreal, Toronto, Winnipeg, Edmonton, Calgary and Vancouver, Canada

Citibank, N.A., New York, U.S.A.

Stock Exchanges: (Symbol GST)
Montreal, Toronto, Alberta and Vancouver Stock Exchanges in Canada

New York Stock Exchange in the United States

Brussels and Antwerp Bourses in Belgium

Zurich, Geneva and Basel Exchanges in Switzerland

Form 10-K

Genstar Limited is incorporated under the laws of Canada. The company's shares are traded on the New York Stock Exchange among others and the company files an annual report on Form 10-K with the Securities and Exchange Commission, Washington, D.C. This report is available free of charge to shareholders on request to the Public Relations Department of the company.

Version Française

Les actionnaires qui désirent recevoir ce rapport en français sont priés de s'adresser au service des Relations Publiques de la Société.

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